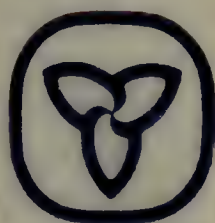


Ontario  
Economic  
Council

# Issues and Alternatives: Update 1979



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# Issues and Alternatives: Update 1979

Ontario Economic Council

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# Preface

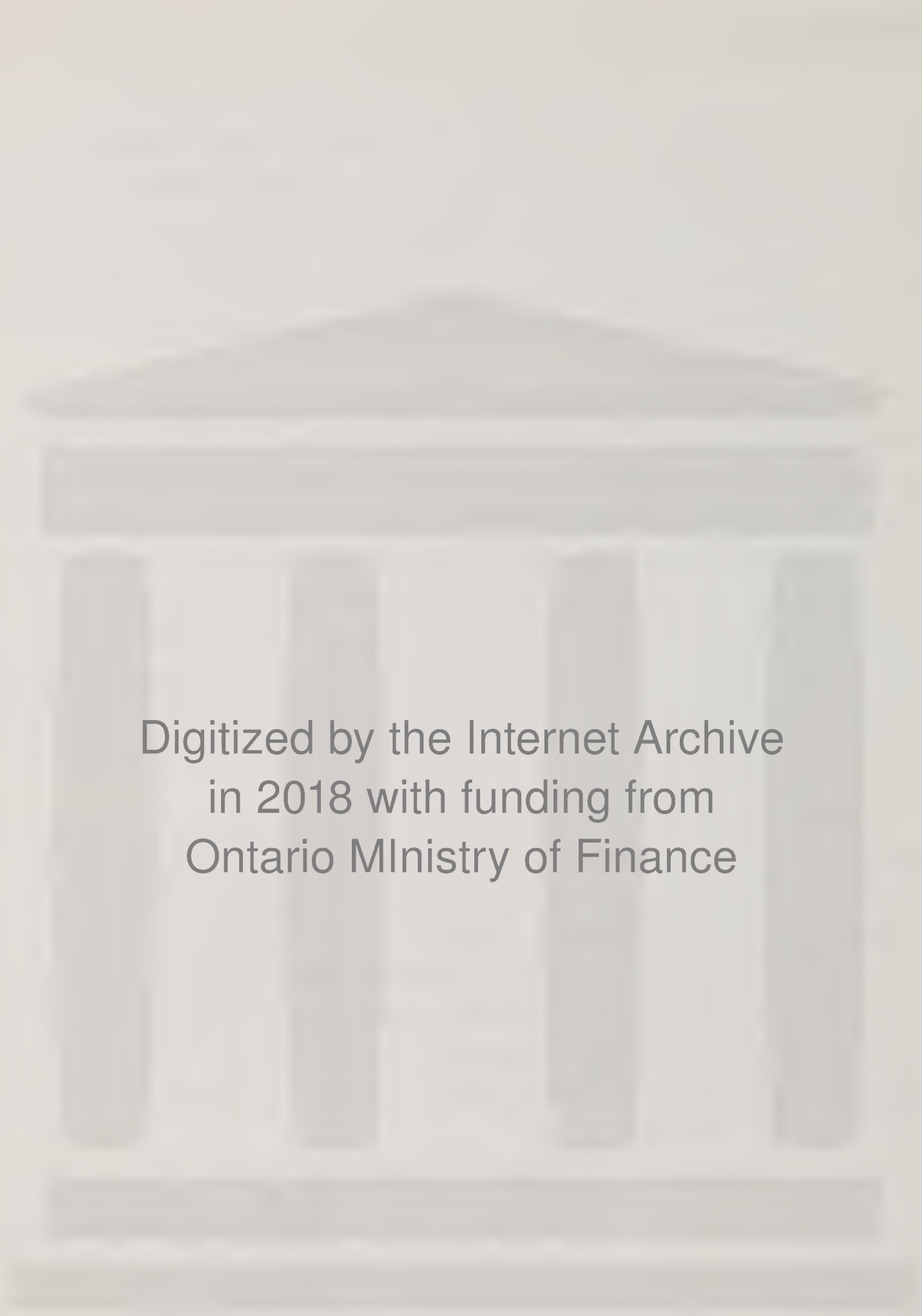
Three years ago, the Ontario Economic Council issued a series of papers on 'Issues and Alternatives' in six areas of major concern for public policy in Ontario and Canada. Four of these papers dealt in some detail with subjects upon which the Council had concentrated a significant share of its research efforts: education, health, housing and social security; in the intervening three years additional research has been completed within each area, and still more work is under way.

With the additional results of research undertaken by the Council itself and by other groups, it is only natural that the Council's views on policy have shifted; they have shifted too as a result of recent government initiatives. The Ontario Economic Council believes that at this time an up-to-date version of its views would be appreciated. They will be found in the four papers gathered in this volume. It is the Council's hope that this volume will contribute to the quality of public understanding of the issues raised, and by doing so that it will contribute too to the quality of governmental decisions and public policy. Clearly these areas remain, and surely they will continue to remain, important to all residents of the province; wise decisions will contribute to their well-being and unwise decisions can do as much harm.

The Council is not a monolithic body. Its members range over a wide spectrum in philosophical attitudes and political judgments. The common factor, we hope, consists in its desire 'to be guided by the evidence' and its concern to have the traditional values of equity and efficiency serve as the twin bases of public decisions. The individual reports have been endorsed by the Council as a whole, but naturally that does not mean that each member supports in full each of the papers, or indeed any of the papers. Members whose disagreement with any part of a paper is strong have been invited to indicate their dissent.



T.E. Kierans  
Acting Chairman  
Ontario Economic Council



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# Recommendations

## Education

For the school system, there is a continuing need for changes in curriculum, including testing, and in methods of financing.

The Council endorses further steps to strengthen the core curriculum and at the same time to provide opportunities for a reasonably varied selection of courses in order to match the different interests and abilities of students. The present emphasis on English/French and mathematics is reasonable, but the Council recognizes that education in these key areas will be more successful when teachers in other areas such as history, geography, physics, and economics also accept responsibility for helping their students to use their own language properly and make more effective use of their skills in mathematics. It believes too that province-wide tests in the core areas are desirable and should be introduced for Grade 13 as soon as possible; if they prove successful, the Ministry should consider introducing them in an earlier grade as well.

Moreover, it recognizes that schools and school boards should work closely with parties in the labour market partly to ensure that the curriculum itself adequately reflects the needs of society and partly to provide the information needed by those who counsel students on such matters as courses and programs and job opportunities.

The Council has several suggestions to make in connection with the financing of schools. First of all, in order to permit the school system to prepare itself for the period in which enrolments are due to decline, the provincial government should hold to a steadier long-term policy. Frequent changes in government funding policies make school planning very difficult; and yet over the last decade these policies have changed several times.

A good policy would give some responsibility to the individual districts, so that any district willing to bear the added costs could provide additional facilities, richer programs, and so on. At the same time the provincial grant should not be uniform for all school boards but instead should be higher for boards with a low tax base than for those that can more easily raise tax revenues.

Finally, the Council endorses the use in the formula to be adopted of a



three-year enrolment base, instead of allowing a board's grant to vary with every annual change in enrolments in schools under its jurisdiction.

For the post-secondary institutions, the Council recommendations primarily concern their financing difficulties.

Each university and community college should be free to set its own tuition fee. The size of the government grant should not depend on the fee the institution sets. A general increase in fees should take place; between 1973 and 1979-80 (for which a 5 per cent increase has been announced) they have gone up much less quickly than prices in general. Moreover, institutions should be invited to set higher fees for programs that are very costly to supply or for programs that can promise unusually high pecuniary rewards for their graduates. Greater flexibility and autonomy in respect to fees promise not only some easing of the financial problems these institutions now face but also greater protection from government controls over their operations.

Grants should, as the Council has said, be determined by reference to such factors as enrolment and changes in the costs of education reflecting general economic conditions (but not the level of its tuition fees). Insofar as grants are based on enrolments, the Council again recommends using as base a three-year period, rather than the current single year. And of course, the formula adopted, it is hoped after discussions within OCUA, should be kept unchanged for a reasonably long period of time.

The Council recognizes that universities in the formulation of their long-term plans should work through a body such as OCUA, whose role should indeed be strengthened; one step which deserves consideration would be to have OCUA and COU encourage universities to extend their co-operative planning of graduate programs in the province to their undergraduate programs.

## Health

The most recent available Ontario expenditure data suggest that health care costs are not at present out of control. In fact, as a share of gross provincial product, they are lower than they were in 1971. A number of factors, among them wage and price controls, a slowing down of population growth and immigration, and government measures to control hospital expenditures and physicians' fees, seem to have contributed to this slowdown in health care expenditures. Complacency, however, would be inappropriate at this stage. Several of the factors that contributed to our recent success are unlikely to continue or, if they do, to meet with the same degree of 'success'; moreover, demographic factors are nearly certain to play a greater and unfortunately a more negative role in determining expenditure levels in future years.



There are both short- and long-run approaches to cost containment and rationalization of our health care delivery system. The former policies generally yield only short-term solutions. What is needed is the implementation of policies in the short run that can be used to form the basis for a longer-run major restructuring of health care delivery. Concerted attention should be devoted to paramedical manpower training and the regulations surrounding its deployment, to circumventing the problems inhibiting and even discouraging the growth of community health centres, and to exploring alternative methods of remuneration in selected circumstances. Continued efforts should also be extended to developing a full spectrum of alternatives to acute care hospitalization.

The Council recommends that the system of health care premiums be re-examined in the context of the province's total tax program. Deterrent fees may not be a good way either of rationing the use of health care resources or of raising revenues. (Indeed, to the degree they are effective as deterrents, they are ineffective in raising revenues.) If the government (for whatever reason) wishes to introduce a link between utilization of health care services and financial responsibility, the scheme proposed by the Council in 1976 appears to be more equitable than the traditional (deductible or coinsurance) deterrent fees, and it may be nearly as effective as a deterrent.

Since employers and workers are unlikely to appreciate the scope and magnitude of occupational diseases and injuries, there is an important and legitimate role for government in achieving a lower level of occupational hazards. Complete reliance on regulation and standards is not warranted by the dismal record both here and abroad. Alternatives such as the provision of information, increased use where appropriate of incentives like an injury tax, and the reform of the workmen's compensation program should receive greater attention than they have had hitherto.

## Housing

The Council believes that the housing problems of many Ontario households should be recognized as manifesting a lack of income and not housing market failure. Governments should move gradually but steadily to develop a system which aids equally those of similar circumstances and gives greater benefits to those less able to provide for themselves. A shelter allowance conforms to these guidelines and should be considered as a model for future reforms. All existing housing assistance, including the provisions of the income tax laws, should be subjected to close scrutiny in light of these principles of equity.

The Council also holds the view that government regulation of the



housing market must be seen as having both benefits and costs. These ought to be assessed and then compared with an unregulated world with its benefits and costs. In the mind of the Council, a fair comparison leads to the conclusion that rent controls should be lifted. Analysing other regulatory activity does not yield such unambiguous conclusions, but it seems that most comparisons have not taken sufficient account of the increase in house prices caused by government policies.

## Social Security

The Council urges the Ontario government to renew discussion with the federal government concerning an income supplement program. Federal financing for this program may be derived from a reallocation of existing Family Allowance expenditures. Without an income supplement program, the two most important problems of the income security system, exclusion of the working poor and inadequate work incentives, cannot be entirely resolved. The need for co-operation of both levels of government in establishing such a program is obvious.

Nevertheless, there are some reforms which Ontario may undertake on its own to improve the current system. In both GAINS A and GAINS D the amounts paid to single persons are not commensurate with the amounts paid to couples. In both cases, funds saved through adjusting benefits to take account of implicit income due to home ownership could be added to single-person allotments. In GAINS A, future increases could be weighted towards single persons.

Almost any meaningful reform of Family Benefits Allowance and General Welfare Assistance will require some additional expenditures, and no reform will be entirely satisfactory without an income supplement program. First among partial reforms should be the early removal of bias on the basis of sex inherent in the structure of Family Benefits. Second should be a review of the rates themselves. The Ontario government might also consider ways to lessen current work disincentives. The restriction applied to mothers on the number of hours worked should be moderated, if not entirely removed. This would increase inequities, compared to the position of the working poor, but would at least allow some prospects for self-improvement for mothers in receipt of social assistance.

Finally, it appears that programs for the working poor cannot be established short of comprehensive reform. Extension of social services offers virtually the only route through which Ontario may, on its own initiative, assist the working poor; and this is dependent upon the removal of restrictions imposed under the Canada Assistance Plan as it is now formulated.

# Education

## Introduction

The Ontario education system is in a period of retrenchment and assessment. The rapid growth of the last decade has ended. Increasing public concern over high government expenditures and taxes is being felt strongly in the education system, as indeed it is throughout the economy. Certain dominant trends will dictate the direction of education policy for the next few years:

- Declining enrolment in the primary and secondary school systems and in universities. Although the colleges of applied arts and technology may continue to grow for a few years, they too will be affected by the decline in numbers of the 18-24 year age group by the mid-1980s.

- Growing fiscal stringency as the squeeze between inflation and only slowly rising government grants continues.

- Increasing competition between the school system, universities, and colleges for limited funds.

- Increasing student demand for job-related training.

- Disappointment of graduates because the level of education they received exceeds that required for the jobs they will perform in the labour market.

- Continuing public criticism of the education system, not only of its high cost, but also of its curriculum.

A concerted effort by educators, administrators, and government will be needed to steer the education system successfully through these reefs.

In 1976 the Ontario Economic Council issued an education paper<sup>1</sup>

<sup>1</sup> Ontario Economic Council, *Issues and Alternatives 1976: Education*



outlining the problems facing Ontario's education system and made recommendations for policy. The present paper reviews those recommendations, analyses recent policy changes in light of them, and suggests directions for the future.

The Council in its discussion of education policies in 1976 set four broad objectives: equality of educational opportunity for all citizens, with no financial or environmental barriers to education; economic efficiency within the education system; freedom of choice at later stages of the education system for both the individual and the institution; and the improvement of the cultural and intellectual environment of the student. This framework remains appropriate.

## Primary and Secondary Education

### POLICY ISSUES IN 1976

The apparent lack in many students of basic arithmetic and communication skills as they leave the secondary school system for post-secondary education and the labour market was the focus of much public criticism in the mid-1970s. Blame was placed on the broad and flexible curriculum structure and the course credit system of the secondary schools, which allowed students to select just enough courses for graduation without insisting on such training as English grammar or basic mathematics. Because of this freedom, combined with the abolition of province-wide Grade 13 examinations and university and college entrance exams, these problems passed undetected into the post-secondary education system and the labour market.

As a middle road between a flexible and a highly structured system, the Council recommended<sup>2</sup> a core curriculum under which certain courses such as English, French, and mathematics would be compulsory while the majority of subjects would still remain optional. The Council saw this restriction of freedom of choice as necessary to ensure a high level of social benefits from education.

Along with a core curriculum, the Council recommended province-wide tests in the core subjects. Besides setting high standards, the test results could also be linked with a cash-grant scheme for needy students achieving a high academic performance. The Council felt that the government should experiment with such a scheme to determine its effects on talented students who might otherwise drop out of school. With test results made known school by school, parents would exercise some freedom of choice between schools, thereby encouraging healthy interschool competition.

2 Ibid., 13

The Council's other main concern<sup>3</sup> about the primary and secondary school system was the division of funding between provincial grants and municipal taxes. When bargaining with teachers for salary increases, school boards used primarily provincial funds. What incentives would there be to keep settlements low if the board did not have to raise the additional funds from municipal taxes? The Council suggested instead a two-tiered approach to teachers' salaries. Minimum teachers' salaries would be negotiated on a province-wide basis, with funding shared between the municipality and the province. Bargaining for salary settlements above the minimum would be undertaken by individual boards and financed entirely out of municipal funds.

One other matter raised by the Council was the need for government to develop procedures to provide better information to students on careers, earnings, and the excess supply or demand for graduates.<sup>4</sup> The Ministry of Education has been constructing a computer data base as a supplement to school guidance materials in providing career planning information. The recent publicity over the lack of demand for new teachers and nurses is a positive example of encouraging students to base their career plans on factual information.

## RECENT DEVELOPMENTS

*Curriculum.* The public sense that there were problems in the teaching and learning of basic mathematical and communications skills led to significant research into the entire question. A series of four studies, commissioned jointly by the Ministry of Education and the Ministry of Colleges and Universities,<sup>5</sup> examined the preparation of students for the transition from secondary schools to universities and colleges.

The research results confirmed the public's concern about basic skill training but also validated the Council's view that a swing back to an extreme restriction of curriculum electives would not be workable. A greater degree of course standardization in secondary schools and the concept of a core program were given strong support by the educators, members of the public, and students surveyed. There was criticism of the lack of external testing and evaluation of student achievement and of the differences in marking standards between schools. English skills were found to be better than anticipated, but general mathematics at the Grade 12 level was found to be weak.

A study undertaken for the Council during the same period<sup>6</sup> examined the

3 Ibid., 15

4 Ibid., 6

5 Ministry of Education/Ministry of Colleges and Universities, *Ontario Secondary/Post-Secondary Interface Study: 1977*

6 Oswald Hall and Richard Carlton, *Basic Skills at School and Work*, Ontario Economic Council, Occasional Paper 1, 1977



degree of student preparation in mathematical and English skills in a selected Ontario community. Among other things, it was found that the acquisition of basic skills at the primary level is hindered by historical contradictions in policy on goals, teaching techniques, and the value of a core curriculum. As a result, students 'enter the secondary sector with wide variation and notable deficiencies in basic skill attainments.'<sup>7</sup> These deficiencies become further amplified in the secondary sector despite remedial efforts.

What curriculum changes have been implemented? The Ministry of Education, even before the research results were available, had moved to create a mandatory core of basic subjects in the secondary schools. For example, mathematics is now a required subject in Grades 9 and 10 and has a strong core program specified.<sup>8</sup> The adopted guidelines stress a better grounding in the basics of each subject for all students. Curriculum policy for the Intermediate Division (Grades 7-10) and the Senior Division (Grades 11-13) continues to be adjusted to meet changing needs.<sup>9</sup> The implementation of curriculum guidelines in schools is monitored by provincial reviews at both local and regional levels.

Although there has been a move towards a core curriculum, the Council's proposal of experimental cash grants for low-income students has not met with government acceptance. Provincial tests in core subjects remain under consideration, and then only for Grade 13. The lack of incentive for talented low-income students to complete their secondary school education remains a serious obstacle to equality of educational opportunity.

A discussion paper prepared by the Ministries of Education and of Colleges and Universities<sup>10</sup> contained further proposals on the transition from secondary to post-secondary education. Eight subject councils (such as English, social sciences, business, and technology) would improve co-ordination between the two education levels. Achievement tests for Grade 13 students in English/French and mathematics were proposed, as well as a suggested curriculum for students wanting to enter university. Decisions on these proposals have recently been postponed by the minister.

*Financing.* Provincial grants to school boards are still based on student enrolment in the board's schools and on the local tax assessment base. Boards located in municipalities where the assessment base is low receive proportionately higher provincial grants per student than do boards in municipalities with a high taxation potential. The government returned to grant ceilings in 1975 from the expenditure ceilings that had been in place annually since

7 Ibid., 172

8 Statement by the Hon. Thomas Wells, Minister of Education, 18 January 1977

9 Commission on Declining School Enrolments in Ontario, *Interim Report No. 2*, 65.

For curriculum guidelines, see Ministry of Education, Circular HSI

10 Minister of Education/Minister of Colleges and Universities, *Policy Proposals Affecting the Preparation and Transition of Ontario Students from Secondary Schools to Universities and Colleges of Applied Arts and Technology: A working paper*, March 1978



1971. This change brought a number of advantages according to the Council's 1976 thinking: it allowed freedom to the individual board to increase expenditures if desired, any increase to be financed by municipal property taxes; and it placed the locus of responsibility for raising funds where the spending decisions were being made. This policy in effect partially met the Council's desire for a two-tiered approach to salary bargaining. But by shifting a larger burden back to the municipality it also allowed the government to cut its expenditures as part of its budget-balancing goal. Low provincial grant increases, placing on the municipality the onus of funding, naturally discriminate against poorer boards unable to raise municipal taxes. This discrimination in turn threatens the other goal of equality of opportunity. In the 1975 fiscal year, 61.4 per cent of total school board expenditures received provincial support; by 1978 this proportion had fallen to 53.4 per cent.<sup>11</sup>

The problems of municipal-provincial sharing of school funding grow increasingly serious as enrolments decline further. A long-run school financing policy is strongly needed.

*Declining enrolments.* The reality behind policies on curriculum, finance, and personnel, indeed the central theme pervading the school system, is declining enrolment. After the peak reached in 1971-2 (see Table 1), enrolment is expected to decline sharply until the turn of the century, except for a small rise in the 1990s.

The Commission on Declining School Enrolments in Ontario has for the last year been studying the problems created by dwindling student numbers. Two interim reports have outlined the magnitude of the expected declines and the critical problems associated with them.<sup>12</sup> Some preliminary recommendations are given in the second interim report; the final recommendations are contained in the Commission's final report, which has just been published.

Ontario taxpayers realize with some concern that there is a 'perverse relationship between enrolment declines and education expenditures.'<sup>13</sup> There should and will be savings associated with declining enrolment as the descent accelerates. But who should realize these savings: the local taxpayer or the province? Local boards and educators believe the province will attempt to shift more of the school finance burden on to local boards as part of its effort to balance its budget. Is such a shift equitable?

The Commission on Declining Enrolments suggests that the province could 'serve the objective of equity in the distribution of educational opportunity by mandating either a minimum or a specific level of expenditure per student by all boards.'<sup>14</sup> This proposition leads to the basic question of

11 Commission on Declining School Enrolments in Ontario, *Interim Report No. 2*, Table 6.

12 Commission on Declining School Enrolments in Ontario, *Interim Report Nos. 1 and 2*

13 Ibid., *Interim Report No. 2*, 27

14 Ibid., 38

TABLE 1: Full-time enrolment in the Ontario education system, 1967-8 to 1977-8

Year	Elementary and secondary		Post-secondary non-university		University	
	No.	Change (%)	No.	Change (%)	No.	Change (%)
1967-8	1 919 586	3.9	34 014	34.5	79 089	15.3
1968-9	1 980 919	3.2	45 371	33.4	92 589	17.1
1969-70	2 037 893	2.9	49 775	9.7	108 012	16.7
1970-1	2 074 420	1.8	54 399	9.3	121 115	12.1
1971-2	2 083 724	0.4	50 345	-7.5	134 419	11.0
1972-3	2 081 221	-0.1	52 521	4.3	135 195	0.6
1973-4	2 064 434	-0.8	55 399	5.5	141 553	4.7
1974-5	2 054 358	-0.5	56 642	2.2	148 631	5.0
1975-6	2 057 976	0.2	61 008	7.7	158 800	6.8
1976-7	2 040 037	-0.9	61 100	0.2	163 085	2.7
1977-8	2 016 750	-1.1	63 600	4.1	158 370	-2.9

Note: Elementary and secondary column includes private schools, Indian schools, and schools for the blind and deaf. Ryerson Polytechnical Institute was included with the non-university sector prior to 1971-2 and with the university sector commencing that year.

Source: Statistics Canada (Cat. 81-229 and 81-220)

efficiency, which cannot be divorced from the question of equity. How much should be spent on education, and how should this amount be decided?

The combination of financial constraint and declining enrolment will undoubtedly cause some reduction in the programs offered. Presumably the majority of such cuts can be made in optional courses, but they will add to the curriculum problems outlined above. Fewer teachers will be required, and the result will naturally be hardship for those laid off. If cuts are made by seniority, young teachers will bear the brunt of them. A new problem will thus be created. The dwindling number of young people becoming teachers in the next decade will create an age gap in the teaching profession and may lead to a shortage of experienced teachers when older ones eventually retire.

With financial constraints, teachers can expect severely restricted salary increases in the next few years. The combination of low salary increases and layoffs may well create an incentive for teacher strikes. But strikes are not likely to change the pattern of financial restraint, because taxpayers expect that



lower enrolments should be translated into a lower rate of increase in educational expenditures.

Declining enrolments will also reduce, and even do away with, the need for some school buildings. Proper planning will be needed to sell these facilities or change their present functions.

SUGGESTIONS FOR THE FUTURE

The present government approach to a core curriculum and curriculum guidelines is a reasonable one. The increased emphasis on the basics of English and mathematics is welcome, and care has been taken not to move to a rigid curriculum. Continual revision of the guidelines will be necessary and should depend on evaluation of the results of present changes. In this regard, the proposed subject councils may provide the best feedback, but in addition the Ministry of Education should regularly solicit the views of teachers, school boards, and the public. The English/French and mathematics tests for Grade 13 students, if implemented, will strengthen the emphasis placed upon these subjects in the earlier grades as well.

For co-ordination between education levels, the government should proceed with the establishment of the eight subject councils. However, this innovation in itself will not provide sufficient communication. Increased

TABLE 2: Total expenditures on education in Ontario, 1969-70 to 1977-8

Year	Elementary and Secondary		Post-secondary non-university		University	
	(\$000)	Change (%)	(\$000)	Change (%)	(\$000)	Change (%)
1969-70	1 680 712		108 564		696 620	
1970-1	1 901 254	13.1	140 345	29.3	788 039	13.1
1971-2	2 071 356	8.9	217 189	54.8	832 993	5.7
1972-3	2 175 388	5.0	219 302	1.0	786 463	-5.6
1973-4	2 317 361	6.5	221 632	1.1	861 647	9.6
1974-5	2 599 335	12.2	253 683	14.5	958 832	11.3
1975-6	2 949 503	13.5	289 994	14.3	1 075 332	12.2
1976-7	3 680 393	24.8	316 747	9.2	1 215 545	13.0
1977-8	4 123 026	12.0	352 351	11.2	1 311 534	7.9

Note: See note to Table 1.  
Source: Statistics Canada (Cat. 81-229)



liaison between disciplines is also needed at the provincial level. Local communication between educational institutions and the labour market needs improvement. Although the proposed province-wide subject councils would be charged to 'encourage existing local and regional secondary/post-secondary liaison activities,'<sup>15</sup> a more formal local structure may be required to establish an appropriate forum for discussion. Such a structure would be most useful in centres where there exist both secondary and post-secondary institutions.

In their community study of basic skills, Hall and Carlton identify a need for 'greater consistency and continuity in the educational process.'<sup>16</sup> One inconsistency they note results from the fragmentation of teaching tasks, which is caused by 'excessive levels of specialization in both claims to expertise and acceptance of responsibilities.'<sup>17</sup> The researchers urge that every teacher, especially those at secondary schools, accept broader responsibilities for general learning and basic skill enhancement.

Implementation of these changes in outlook will be slow but should be stimulated by the curriculum guidelines and student testing. In this way both student and teacher will realize that English grammar and basic mathematics must be taken into account throughout the curriculum. Faculties of education should also be encouraged to emphasize the 'general learning approach to prospective teachers.'

The future of provincial-municipal funding of the school system is clouded by declining enrolment, property tax reform, and the provincial treasurer's objective of balancing the budget by 1984. Property tax reform has been shelved at least temporarily by the province for reasons beyond the scope of educational policy. Nevertheless, any long-term reassessment of the school financing system will have to consider the effects of tax reform.

What do we require of the school funding system? Equality of educational opportunity dictates that the funding system should minimize discrimination against school boards with a lower tax base, that is, provincial grants should continue to be higher per pupil for those boards. The local community must be sufficiently responsible for funding the school system, but municipal taxes cannot bear the entire burden.

The financing system must recognize declining enrolment if it is to promote economic efficiency, but at the same time it should provide protection against the fiscal implications of large swings in enrolment. Funding stability in a period of declining enrolment implies that the direct connection between enrolments and provincial grants be lessened. School boards would welcome such a move. Divorcing a portion of the provincial grant from a per-pupil basis

15 Ministry of Education/Ministry of Colleges and Universities, *Policy Proposals Affecting the Preparation and Transition of Ontario Students*. . .

16 Oswald Hall and Richard Carlton, *Basic Skills at School and Work*, 275

17 Ibid., 276



and giving a base grant to each board is one method of approaching this problem. A better alternative in the long term would be the adoption of a granting base for which enrolments are averaged over a period of time, say three years, rather than being considered each year. This would provide a cushion to local boards against enrolment fluctuations and allow them some flexibility in the timing of necessary cutbacks while avoiding a 'fixed' grant which might tend to discourage efficiency. Finally, an appropriate funding system should assure school boards that a predetermined mechanism will be used for the allocation of provincial grants.

These suggestions must be considered in the context of the forthcoming recommendations of the Commission on Declining Enrolments. To give the education system a firmer indication of its future the government should be prepared to respond quickly to those recommendations.

## Post-Secondary Education

### POLICY ISSUES IN 1976

The Council's concern for post-secondary education policy in 1976 centered on two major interrelated issues: financing and institutional autonomy.<sup>18</sup>

The financing problem, as seen by the Council, was to determine how best to deal with the financial constraint that had begun in the early 1970s. Tuition fee levels had been frozen by government, and grant increases were severely limited. Colleges and universities were expressing fear that the quality of education might have to be sacrificed. Under such conditions how could institutions best cope with restricted funding? In particular, could alternative financing methods improve the outlook for colleges and universities without encouraging inefficiency?

The Council in 1976 saw clearly a potential conflict between the tendency towards increased control by the government and institutional freedom of choice, recognizing the latter as an essential condition for maintaining quality. The apparent loss of autonomy was directly linked to the large and increasing proportion of university and college revenues provided by government. The key to greater autonomy, in the Council's opinion, was therefore greater financial independence. Its recommendations for a new method of financing post-secondary education were directed towards five long-term targets set for the mid-1980s<sup>19</sup>:

- 1 The determination of tuition fees by the individual post-secondary institutions.

18 Ontario Economic Council, *Issues and Alternatives 1976: Education*

19 Ibid., 22



2 Any increase in fees should directly affect the revenues of colleges and universities; they should not be offset by reductions of grants from government.

3 The fee structure should more adequately reflect the levels to be expected from the various programs of study and the costs associated with them.

4 Fees in general should be raised to yield a significantly higher ratio — say 30 per cent — of fee income to total post-secondary educational costs than the present figure of about 15 per cent.

5 The system of grants for qualified but financially poor students should be expanded, and it should be supplemented by an expanded loan system available to all students.

The greater reliance on tuition fees as a source of revenue outlined in targets 1, 2, and 4 would allow increased financial independence for institutions and should markedly reduce the financial constraint under which these institutions now operate. Target 3 takes into account the Council's view that the proportion of instructional costs borne by post-secondary students, especially those in professional and graduate programs, was too low. Since increases in tuition fee levels would raise barriers to accessibility for those from lower-income families, target 5 would serve to alleviate this difficulty. The Council's expressed preference in changing the student aid scheme was for a provincial grant to all post-secondary students based on a means test. Additional loans should be provided for any student at the government borrowing rate.

In addition to this financial package, the Council recommended that government should encourage universities and colleges to permit movement of students from one to another.<sup>20</sup> Greater flexibility would give students a wider choice of study programs while not adding to the penalties for any mistake they may make in their program decisions, many of which would be the result of inadequate information. No formal mechanisms for implementing such transfers have yet been created, although a few transfers between the two types of institutions are made each year.

## RECENT DEVELOPMENTS

*Declining enrolment and financial constraints.* Since the beginning of 1976 the dual-edged sword of declining enrolment and increasing financial stringency has hung ominously over Ontario's post-secondary education system, especially over the universities. The colleges of applied arts and technology have continued to enjoy increases in enrolment (see Table 1) as young people seek to prepare themselves for a specific occupation. However, enrolment in the community colleges will probably peak about 1983; and thereafter they will begin to share the dilemma of the universities.

<sup>20</sup> Ibid., 25

In universities graduate enrolments have been falling off since 1976-7, and undergraduate enrolment started to do the same in 1977-8 with a 3.5 per cent decline.<sup>21</sup> What has happened is that the participation rate of the 18-24 year age group started to decrease in 1977-8 (see Table 3). A similar drop in enrolment is expected again in 1978-9. Demand remains high for most professional programs but has fallen off significantly in arts and science and in education, revealing the students' desire to receive job-related training at a university. Unless there are major unforeseen changes in the university participation rate, the decline in enrolment is predicted to continue at least until the end of the century as the demographic effects of the declining birth rate are felt.

TABLE 3: Participation rates in Ontario post-secondary education: ratio of full-time enrolment (graduate and undergraduate) to the 18-24 year old population

Year	University	Non-University	Total
1967-8	0.109	0.047	0.156
1968-9	0.121	0.059	0.180
1969-70	0.133	0.061	0.194
1970-1	0.141	0.063	0.204
1971-2	0.142	0.053	0.195
1972-3	0.136	0.053	0.189
1973-4	0.138	0.054	0.192
1974-5	0.140	0.054	0.194
1975-6	0.146	0.056	0.202
1976-7	0.147	0.055	0.202
1977-8	0.139	0.056	0.195

Source: Full-time enrolment from Table 1. Population data from Statistics Canada.

Universities and colleges experienced some short-term relief from financial constraint with a 14.4 per cent increase in government grants in 1975-6. Since then, however, the increases in the annual operating grants have been too low to enable them to meet the needs of students whose education has had to be supplied at ever rising costs. Revenue increases from higher tuition fees, with the exception of small spurts related to enrolment growth, have been offset by reductions in government grants. Tightening constraints on federal research funds have forced universities to reduce levels of research activity and purchases of scientific equipment. The virtual disappearance of

21 Ministry of Colleges and Universities, *Enrolment Reports*



provincial grants for capital spending has also deprived the institutions of a source of revenue for essential equipment purchases.

Little relief can be expected from the pattern of financial constraint for colleges and universities for the next few years. In 1977 the Ontario government announced it would balance the provincial budget by 1980-1.<sup>22</sup> This move will impose strict controls on expenditure increases on all publicly supported bodies. Experience since the plan was announced<sup>23</sup> shows that revenues have fallen short of expectations as a result of federal changes in the retail sales tax and the low level of economic performance. Provincial expenditure increases will thus be even more severely curtailed at the same time as the federal government withdraws from direct support of post-secondary education and transfers tax points to the provinces.

Not that financial constraint is unnecessary. In part, it is a response to public reaction against the increasing role of government and the large growth in government expenditures during the last decade. As a policy of fiscal responsibility on the part of government, constraint should encourage economic efficiency.

Universities enjoyed strong financial support during the period of rapid growth, and now with declining enrolment they cannot expect government grants to continue increasing at the former rate. But the government, for its part, must ensure that its restraint of grant increases is not so severe as to cause irreparable damage to the university system. The situation is even more difficult for the community colleges since their enrolment continues to grow. Both universities and colleges will have to make cuts in order to accommodate fiscal realities.<sup>24</sup> They will need to consider, among other alternatives, a slower rate of increase in salaries of faculty and staff and reductions in the size of their teaching and support staff. To what extent is an institution willing to give up large salary increases in order to maintain its faculty and staff complements? If student enrolments are falling, can the size of the teaching staff be reduced in proportion without adverse effects upon the quality of the education?

The government, on the recommendation of the Ontario Council on University Affairs (OCUA), has introduced certain policies intended to help universities adjust to limited funds and declining enrolments. Until 1976-7, an institution's share of the total operating grant for the whole system was determined by its own weighted enrolment in the preceding academic year. Between 1976-7 and 1978-9, allocations were made (for undergraduate programs) on the basis of a three-year-average weighted enrolment as a base (1974-5 to 1976-7) plus 50 per cent of the difference between that base and the

22 Treasurer of Ontario, *Towards a Balanced Budget*, Paper C, Ontario Budget, 1977. The target date is now 1984, but the point remains valid.

23 Province of Ontario, *Financial Report*, 1978, 2

24 For a more complete description of the financial outlook for the universities, see *The Ontario University System: A Statement of Issues*, Ontario Council on University Affairs, September 1978.



current three-year moving average of enrolment. This modification in policy gave a measure of fiscal stability by dampening the implications of fluctuations in enrolment. The impact of a one-year change in enrolment is softened both by its inclusion in an average and by the additional fact that the average growth or decline is discounted by 50 per cent. Such a shift may reduce the pressure for students.

Graduate enrolments eligible for funding have been frozen at their 1975-6 level and in 1979-80 will move to a new formula not yet announced but probably similar to that used for undergraduates. Coupled with the new graduate funding mechanism is a set of strict criteria which universities must follow to secure funding approval for new graduate programs. These criteria, which take into account the need for the program and the existence of duplicate programs elsewhere, require in addition that the program succeed in attracting students before funding is approved.<sup>25</sup> In effect, unnecessary growth will be permitted only if universities are prepared to fund it privately. Although the application of these criteria implies a greater degree of outside control over the university system and therefore works against institutional freedom of choice, that control is exercised by OCUA rather than by the government itself.

The colleges continue to allocate their funds on the basis of activity grants related to salaries and plant grants related to the size of the institution's physical plant, but a return to an enrolment-driven formula for colleges is currently under consideration.

## FEES

What has become of the tuition fee and student aid policy targets advocated by the Council as a means of improving institutional autonomy and alleviating financial pressure?

Tuition fees for colleges and universities continue to be established by government as they have been since 1972. Even though the legal 'right' to establish university fees remains with the institutions, from 1973-4 to 1976-7 the government prevented increases in them. For 1977-8, the minister of colleges and universities 'suggested' that universities increase their tuition fees by \$100 for all programs in a two-term academic year and that college fees for a similar period be raised by \$75; and a further increase of 5 per cent (approximately \$35) is to take effect in 1979-80. Because government grants were inversely related to tuition fees, that increase did not result in greater revenue for institutions, nor will the increase announced for next year; they simply shifted a larger portion of the cost of post-secondary education from the government to the student. Universities retain the option of not passing the fee increase on to students, but it is unrealistic to expect an institution to be able to absorb the cost of such a move. Clearly no progress has been made in the direction of satisfying the Council's first two targets.

The Council's third target was fee levels that reflected more adequately the private benefits and instructional costs of different post-secondary education programs. The across-the-board fee increase of 1977-8 simply disregarded this principle. Professional or graduate programs, which provide a higher portion of private benefits to students and generally cost more, should have been assigned higher fee increases to satisfy this end; but they were not. The level of government subsidy of students in programs with especially higher costs and benefits thus remain much greater than in other programs such as undergraduate arts and science. Students in medicine, for example, paid only about 7 per cent of the cost of their education in 1977-8, while students in arts and science had to cover approximately 27 per cent of their schooling costs.<sup>26</sup> Not only are these proportions unrepresentative of the private benefits received, but they do not approach the 'significantly higher ratio of tuition fees to total post-secondary educational costs' recommended in the Council's fourth target. And each of the four fee-related targets has been further frustrated by the government's decision to freeze tuition fees once again for 1978-9.

TABLE 4: Expenditures per full-time student in the Ontario education system, 1969-70 to 1977-8

Year	Primary and secondary			Post-secondary		
	Current \$/student	Constant \$/student	Change (%)	Current \$/student	Constant \$/student	Change (%)
1969-70	825	851		5103	5266	
1970-1	917	917	7.8	5290	5290	0.5
1971-2	994	947	3.3	5684	5413	2.3
1972-3	1045	912	-3.7	5358	4675	-13.6
1973-4	1123	850	-6.8	5500	4164	-10.9
1974-5	1265	865	1.8	5907	4040	-3.0
1975-6	1433	893	3.2	6211	3872	-4.2
1976-7	1804	1052	17.8	6835	3985	2.9
1977-8	2044	1124	6.8	7496	4121	3.4

Note: The deflator used is the Gross National Expenditure implicit price index on an annual basis (1971 = 100).

Source: Tables 1 and 2.

Tuition fees at Ontario universities average approximately \$800, which is above the level in most Canadian jurisdictions. They are almost equal to the average level set at state universities in the United States (after exchange rate

<sup>26</sup> For a numerical example, see J. Stefan Dupré, 'The determination of tuition fees,' in *Emerging Problems in Post-Secondary Education*, Ontario Economic Council, 1977.



adjustments), but of course they are much lower than the levels in American four-year private institutions, where average fees in 1977-8 were \$2500 (US) or more. The government, in response to the 'mounting public concern regarding the cost to the Ontario taxpayers of educating foreign students in our post-secondary institutions,'<sup>27</sup> raised significantly the fees charged to foreign-visa students. That policy was seen as more appropriate than establishing quotas on the number of foreign students allowed into Ontario's post-secondary institutions. New foreign-visa students must now pay \$1500 for a two-term academic year in universities and \$750 for a similar period in colleges, or more than twice the amount paid by domestic students. Some minor exemptions were allowed for such groups as dependents of diplomatic personnel or students sponsored by the Canadian International Development Agency.

Many institutions felt that this policy would discourage the highly desirable international flavour of a post-secondary institution. Two universities elected to exercise their right not to pass the increase in fees along to the students for the year in which the policy was introduced, a departure from the usual university reaction to the pre-emption of fee-setting by government. The enrolment of foreign-visa students declined in 1977-8, but how much of this can be attributed to the fee increase is not known. While the visa-student fee policy does represent a step towards differential fees within the post-secondary institutions, the differentiation is not, as it should be, by program.

*Student aid.* The only significant move that followed the Council's recommendations on financing post-secondary education concerned student aid. The Council had questioned the economic efficiency of the previous student aid plan which provided students with loans for the first \$800 of their educational needs and provincial grants for any amounts required above the loan ceiling. The government's first change in the plan was to raise the loan ceiling to \$1000, but this only aggravated the situation. The scheme remained an 'open-ended' plan whereby grants were given after the loan ceiling had been satisfied, and there were no strict controls on parental contributions. Hence, true financial need had very little to do with the selection of the recipients of financial support. The initial loan ceiling represented a barrier to low-income families unwilling to risk borrowing. By raising the loan ceiling to \$1000 the government only made the barrier higher. The ministry did compensate to some extent in 1977-8 by providing more funds for the program when tuition fees were increased.

For 1978-9 the government has replaced the old student aid program with the Ontario Study Grant Plan,<sup>28</sup> a scheme closer to the program urged by the Council. The requirement that students borrow \$1000 before being eligible for a grant has been eliminated and replaced by grants based on financial need. In

27. Statement to the Legislature by the Hon. H. Parrot, minister of colleges and universities, 4 May 1976

28 Ministry of Colleges and Universities, *Financial Assistance for Students: Ontario Student Assistance Program, 1978-79*



determining the size of the grant, the student's income and that of his or her family are used to calculate the expected contribution from each. The student must also report his or her assets. Only married students or those who have been in the labour force for three years can avoid the disclosure of parental income when applying for assistance. This satisfies the Council's desire for a grant system available to all post-secondary students on the basis of a means test.

Students may now apply for grant assistance only for the eight eligibility periods (semesters) immediately after they first begin their post-secondary education. This has the effect of eliminating from grant eligibility graduate students and those students in the later years of programs extending beyond four years or eight semesters, such as medicine. On grounds of equity this is generally desirable since it removes a subsidy to students in programs with especially high private benefits.

The Ontario Study Grant Plan is supplemented by the Canada Student Loans Plan and the Ontario Student Loans Plan, both of which provide low-cost loans with no interest due until six months after the student ceases full-time study. The availability of loans serves to moderate any financial barriers to student enrolment caused by increased tuition fees. The Ontario Student Loans Plan helps groups otherwise ineligible for financial assistance, such as part-time students.

It is premature to assess the effects of these new student aid packages, but preliminary indications are that the number of applicants for student aid has fallen dramatically. This is presumably a direct result of the limited number of eligibility periods as well as the tighter requirements for parental contribution and disclosure of financial information.

## SUGGESTIONS FOR THE FUTURE

Now that a student aid policy providing grants on a means-tested basis is in place, an appropriate tuition fee policy has become crucial.

Tuition fees should be raised, primarily because students should be expected to bear a higher proportion of the cost of their education. Though the costs of university education rise each year with inflation, fees have risen, even counting the recently announced increase for the next year, by only about 20 per cent since 1973. Hence they have not reflected inflation and should be raised still more. The Ontario Study Grant Plan ensures that such increases need not place financial barriers in the way of educational opportunity. If it is found that the grant plan does not provide equality of opportunity, the schedule of expected parental contributions can be adjusted downwards without destroying the principles inherent in the scheme. Presumably these contributions will be subject to annual modification in any case.

Tuition fees ought not to be increased by a fixed amount for all programs, but should rise by a larger amount in the programs where there are greater private benefits, for example in most professional and some other graduate



programs. Why are university fees so much higher than college fees? The latter should be brought more into line. In short, fees for post-secondary education should be revised generally. But this is not to say that the government should dictate fee levels as they now do. As the Council argued in 1976, a tuition fee increase can promote the financial flexibility of institutions and return some of their autonomy provided that government grants are determined without regard to tuition fee revenue. After all, government need not be unduly concerned lest universities raise their fees excessively. When universities are competing for qualified students it is doubtful that one of them would want to put itself at a disadvantage by too large a fee hike. Nevertheless, if the government did fear that, it could set a range within which fees could be raised in a given year. For purposes of the student aid plan, a standard fee could be used for tuition cost allowance rather than the actual fee, thus avoiding 'back door' financing of institutions through fee increases. Government would still maintain final fiscal control over post-secondary institutions through its ability to limit grants, but institutions would acquire more leeway in raising revenues if their right to set fees is restored.

Tuition fee increases will clearly not cure the universities' problem of severe fiscal stringency. Cost-cutting measures ought to continue, and universities in particular will have to be encouraged to increase their private sources of income.

In setting tuition fees it might be desirable to index them to inflation. Students object to large across-the-board fee increases every few years, but they may more readily accept frequent and less drastic increases.

The current discounted and averaged enrolment formula for allocating funds to universities has provided a good deal of financial stability. Growing universities have in effect been subsidizing those in which enrolment has fallen. Despite intermittent university criticism, the government should maintain this formula as a key to stability within the system. Not only should the formula be kept but a similar one should be developed for community colleges to help them handle the financial problems they will encounter once their own enrolments in turn start to decline.

The research activities of the university should not be forced to diminish when student numbers do. During a period of enrolment decline and fiscal constraint, the government must take steps to preserve a high level of research in universities if a significant rate of return from them is to be achieved. Direct research funding has been primarily a responsibility of the federal government, which has recently announced budget cutbacks in its major research-supporting agencies as part of its fiscal restraints. Such a policy will, if not end, at least limit research in the universities. Provincial governments must not allow their fiscal policies to add to this federal injury. From a manpower policy perspective, the provincial government should be particularly concerned with the lack of career opportunities for young researchers; otherwise long-term deficiencies in the research capability of the province will ensue.



Financial policy alone will not ensure autonomy for institutions. Recently some universities have asked what structural relationship should exist between themselves and government. Should there be a direct link with no buffer body between government and each university? Or should the role and powers of the existing advisory agency, the Ontario Council on University Affairs, be strengthened? In this connection it should not be forgotten that strengthening the powers of the agency implies some surrender of power by each institution.

In a recent paper the Ontario Economic Council (*The Process of Public Decision-Making*, 1977, 59) commented on the role of OCUA as a buffer between educational institutions, which want more money and autonomy, and the government, with its desire to spend less. The Council noted that OCUA has probably been able to obtain more money for the university system than would otherwise have been the case. In part, this was because advice to the government has been made public. At the same time the presence of OCUA, the public nature of its advice, and the high acceptance rate of its policy recommendations have alleviated the charge of direct government interference in academic freedom and lessened the political basis for decision-making.

There can be no doubt about the value of OCUA's role in encouraging the universities of the province to plan their graduate programs co-operatively. They have been able to avoid wasteful duplication in this area. With the prospect of a serious decline in the real resources available to them, the need for such co-operative planning is likely to grow more intense; otherwise, individual university programs may be contracted in ways that jeopardize unnecessarily the requirements of the system as a whole. We urge, moreover, OCUA and the Council of Ontario Universities (COU) to extend their efforts to achieve co-operative approaches to basic changes in other programs, and especially those at the undergraduate level.

Obviously it will be more difficult to bring about some rationalization in areas in which programs are already in place. But financial pressures are bound to compel cuts in any event. The alternatives are that the cuts be determined by the needs of the whole system — whether at the graduate or undergraduate levels — or instead by the individual responses of each of the institutions to the particular pressures to which it becomes exposed. Co-operative decision-making should minimize the damage to the educational system of the province.



# Health

## Introduction

Three years ago the Ontario Economic Council (1976) expressed concern over rising health care expenditures and a number of other issues in the hospital and medical care delivery systems, such as the financing of health care, the extension of public insurance to cover pharmaceutical and dental services, preventive medicine, and the quality of care. Now that some time has elapsed the Council looks again at these issues, comments on recent developments, and raises new questions that deserve attention from both the public and the government.

## Health Care Expenditures — Recent Trends and Prospects

Health care costs as a proportion of gross provincial product apparently peaked in 1971 and have since stabilized at a lower level. As the figures in Table 1 illustrate, the dominant components — hospital and medical care, which in 1976 composed 68 per cent of total Ontario personal health care expenditures — reached 4.5 per cent of GPP in 1971 and decreased to 4.0 per cent in 1973-4, though they have since shown signs of climbing again. But, as testimony from both the Ministry of Health and the Ontario Medical and Hospital Associations has recently indicated, there are no grounds for characterizing health costs in this province as ‘uncontrolled and uncontrol-

lable.’<sup>1</sup> Per capita spending on health services in Ontario, currently at \$380, is not out of line with the Canadian average of \$377. Furthermore, the health share of the provincial budget has fallen from 33 per cent in 1972 to 28 per cent now, even though benefit coverage remains about the same.

TABLE 1: Ontario hospital and medical expenditure as a share of gross provincial product

Year	Medical and hospital expenditures in current dollars (\$000)	Ratio of medical and hospital expenditure to gross provincial product
1960	448 913	3.1
1965	741 663	3.4
1970	1 480 835	4.2
1971	1 685 688	4.5
1972	1 845 817	4.3
1973	2 003 879	4.0
1974	2 358 537	4.0
1975	2 839 692	4.3
1976	3 128 216 <sup>a</sup>	4.2 <sup>b</sup>

<sup>a</sup> Preliminary estimate from Health Economics and Statistics, Health and Welfare Canada

<sup>b</sup> Based on preliminary estimate of GPP from Ontario Ministry of Treasury, Economics and Intergovernmental Affairs

While the Council agrees that health spending in Ontario is not now increasing at a critical pace, we cannot share the optimism of Robert Elgie, the chairman of the Ontario Select Committee on Health Care, who reportedly said that ‘we seem to have turned the bend in the past three or four years. The situation seems to be under control and improving.’<sup>2</sup> In our opinion such optimism can breed an unjustified complacency.

The Council believes that the relative stabilization of costs in the recent past was the result of a number of factors, among which the following should be carefully noted:

1 Since the early 1970s the Ministry of Health has resorted to severe measures to control costs, many of them focused on the largest and most

1 Testimony before the Ontario Select Committee on Health Care (1978)

2 *Globe and Mail*, 12 July 1978, 2



expensive sector of the health care system, the hospitals. Hospitals have been closed; the number of beds in use have been reduced and entire wings and departments emptied; hospital budgets have been constrained; mergers of hospital facilities have been forced; there have been staff layoffs; the capital spending of hospitals has been curtailed; and so on.

2 The wage and price controls program of the last few years probably has tempered the rise in wage costs. This is of particular significance in the highly labour-intensive health care sector and most notably in hospitals.

3 OHIP adopted a surprisingly tough stand in bargaining with physicians over their fee schedules even before wage and price controls were in place. For most of this decade increases in fee schedule have been substantially below the rate of inflation. In part this accounts for the slow growth of physician incomes and the relative decline of their incomes in relation to other occupational groups and to average incomes in general.<sup>3</sup>

4 A lower rate of population growth in the early 1970s than in the previous decade, arising from a reduction in the birth rate and declining immigration, has dampened the increase in potential 'consumers' for the health care industry.

Unfortunately for health care costs (or for those concerned about them), many of these factors were unique or may have been pushed to their practical limit. Wage and price controls have been phased out, at least temporarily. Many physicians are obviously opposed to what they see as government interference and the inequities that have followed.<sup>4</sup> The most recent round of negotiations between OHIP and the Ontario Medical Association suggests that physicians are no longer willing to accept increases in their fee schedules that are smaller than increases in wage rates generally. While the cost-containment measures for hospitals have had some success, several have had to be reversed. A few of the more severe measures, such as the decision to close down certain hospitals, encountered strong opposition and were later rescinded or modified. Obviously, restraints in hospital budgets are necessary if increases in medical care costs are to be contained, but if controls are not applied very carefully and are not accompanied by other measures to compensate for important hospital services that may have to be dropped, hospital budgets are likely to be raised again. Probably the hospital sector is still too large and more excesses can be trimmed away, but they must be more clearly identified if further budget-cutting is to be effective. The task of keeping medical care costs from

3 Low increases of physician fees were a Canada-wide phenomenon. The annual average increase in physician fees from 1971-2 to 1975-6 in Canada was 3.3 per cent, whereas the consumer price index increased an average of 8.5 per cent annually (Health Economics and Statistics Division, Health and Welfare Canada). It should be noted, however, that physician incomes had been increasing far *faster* than average wages in the decade before 1971 (Barer, Evans, and Stoddart, 1979).

4 This is evident from newspaper accounts of physicians' reasons for leaving Ontario and for opting-out of the OHIP system (see also Wolfson and Tuohy, 1979, on the latter issue).



rising to excessive levels is likely to be made even more difficult as the size of the aged population grows.<sup>5</sup>

There are additional reasons for the Council's belief that health care costs should remain a matter for concern. Growing pressure to reduce the size of the public sector and thus government expenditures is obviously on a collision course with the needs of a 'growth industry' such as health care, which is largely financed out of public funds. Moreover, total health expenditures closely approximate the total income of health care providers. The goal of containing public expenditures will inevitably meet with opposition from those providers whose income is put in jeopardy, and it may be tempting in this quandary to try to shift some of the responsibility for health care back to the private sector. Such a process, though it would induce the re-emergence of private coverage, would have no effect on total health care expenditures.<sup>6</sup> Nevertheless, the pressures on the provincial government to constrain public outlays for health care have grown since the recent revision of the federal-provincial cost-sharing agreements requiring full provincial financial responsibility. Moreover, a consensus is emerging that our current outlays should, and could, be bringing higher levels of health for our population or, conversely, that existing levels of health could be achieved with lower resource commitments. We are coming to realize that health status can be influenced at the margin only to a limited extent by the current health care delivery system.

In short, there are many reasons for suggesting that complacency would be premature; on a number of fronts the provincial government could continue to address issues of cost containment and production efficiency.

## Cost Containment

The absence of any initiative at long-term restructuring of the organization of and regulations surrounding the health sector suggests that, for the moment, reliance on other avenues for cost control is unavoidable. The Council continues to believe that at this time the most urgently needed actions include:

- 1 the identification and elimination of excess acute care beds in hospitals;
- 2 the closure or conversion of hospitals or underutilized units;
- 3 the pooling of units across hospitals to reduce duplication of facilities.

Given the desire of hospitals for autonomy, for survival, and for expansion and growth, and frequently too the importance of a hospital to the

<sup>5</sup> A research project commissioned by the Council and now nearing completion investigates the social and economic implications of this anticipated shift in demographical factors.

<sup>6</sup> Some likely scenarios are developed in Barer, Evans, and Stoddart (1979).



local economy, such decisions will not be made at the individual hospital level. They have to be made, if at all, by the district health councils or the Health Ministry. The government has in fact already taken politically difficult and painful measures to contain hospital costs, and these measures seem to have helped reduce the rate of growth of hospital expenditures. In addition, the Ontario government strongly supported the federal-provincial initiative aimed at reducing the immigration of foreign-trained physicians. Nevertheless, the 'cut, freeze, and squeeze' (Reuber, 1977, 5) policies for cost containment, if applied on their own, are effective, as noted earlier, in the short run only. They cannot be applied continuously, and they have encountered formidable resistance from physicians, hospital administrators, and the public.

In the Council's view, efforts to monitor the number of practising physicians should be taken one step further, through:

4 the redirecting of some resources now devoted to training physicians into the training of paramedical personnel.

This is not to say that more personnel in all such categories should be trained. As with other policies a selective approach will be necessary: there is evidence of a current surplus of registered nurses in the province, but a strong case can be made for retaining the nurse-practitioner program at McMaster University. As in the past, the Council also

5 encourages the government to take bold measures to correct the geographical and specialty maldistribution of physicians by implementing the relevant recommendation of the Mustard Task Force Report (1974, 9).

More fundamental steps are needed if health care costs are to be properly contained over the long run, steps to secure a significant modification of the structure of the health care 'industry.' One important ingredient in a longer-term strategy would be the development of alternatives to acute care hospitals, such as patients' homes (home care), domiciliary care (rest homes, homes for the aged), nursing homes, extended care hospitals, rehabilitation hospitals, convalescent hospitals, and self-care hostels. These alternatives should not be promoted as 'add-ons,' that is, they should not constitute an addition to the current supply of acute care hospital beds. They should instead be made to substitute for currently misused acute care facilities. The objective should be to reallocate resources away from acute care hospitals, with their very high operating costs, to alternatives that can operate at much lower costs.

In this regard the introduction of day care surgery units seems most promising and should be regarded as another useful substitute. Evans and Robinson (1973, 1) found, for example, that cost savings of over 45 per cent per episode could be achieved by channelling selected patients requiring 'relatively straightforward surgical procedures under general anaesthesia' through such a unit, rather than admitting them as in-patients. The same authors have found that even greater savings were emerging after the program



had been in place for a number of years. It must be re-emphasized, however, that these cost savings will not materialize if the beds and other resources they set free are simply reassigned to other parts of the health care sector.

One of the most attractive ambulatory care reform proposals is the community health centre. The advantage of this type of institution, in the view of the Council, is that it allows the more or less simultaneous implementation of a number of longer-run reforms which otherwise would have to be introduced individually. These include alternatives to the fee-for-service payment system, by introducing either capitation fees or a salary system or a combination of the two; medical manpower substitutions and hence better use of personnel; improvement in the geographical distribution of health care resources; and greater accessibility to a wider range of health care services, with better care for the patient and a smaller loss of the patient's time.

The Council believes the mere consolidation of small, relatively independent physicians' practices will not significantly improve the delivery system or help control expenditure increases; what is needed, instead, is group practice along the lines noted above. The community health centre 'movement' in Ontario is not at all flourishing at this time (Hastings, 1978); though it holds great promise, a number of substantial problems remain to be resolved. In particular, the concept of a centre able to deliver a comprehensive range of services to a well-defined population is difficult to reconcile with a universal insurance program under which patients of a clinic are free to seek care from providers outside the clinic (Vayda, 1977). This type of obstacle must be overcome if community health centres are ever to become a viable force in the delivery of health services in Ontario.

There are ways to complement (or possibly substitute for) a group practice to bring about a more efficient use of medical manpower. The community health centre alters the mix of labour inputs in the treatment of a given episode of illness. The Council also strongly encourages manpower substitutions in other areas of the health care system. It seems particularly important that a strong effort be made to reduce the many barriers and obstacles that now constrain potential manpower substitutions.

The Ontario Council of Health suggested several years ago that 'an energetic and extensive program be established to set up and evaluate studies on alternatives to fee-for-service payment in appropriate structures' (1973, 8). In the context of a publicly financed health care system, the traditional fee-for-service method of payment is open to a number of objections as a way of remunerating physicians. Financing from revenues does not provide a strong incentive for physicians to hold down costs or seek more efficient methods. Salary, capitation, and fixed budget systems should be considered as alternatives, especially for group practice, hospitals, and other institutional settings, where they appear to have some advantages. Naturally, every conceivable system will have failings and strengths that will vary with the



objectives of health care policy; and different parts of any system are differently amenable to control, regulation, and correction.

The fee-for-service method of compensating physicians has become so traditional in Ontario — though other systems make much less or even no use of it at all — that any change to a new system would have to be introduced gradually. One alternative deserving serious consideration would be to place all physicians whose work was virtually full-time at a hospital on salary. Having argued this case three years ago, we can now defer to the recent argument of Alan Hay of the Ontario Hospital Association who stated that ‘physicians whose work is virtually all hospital-based should not be reimbursed on an open ended fee-for-service basis. We have suggested instead a negotiated salary, because it could eliminate the dilemma of the physician, whose personal income gains from increasing, rather than limiting, the volume of services the hospital provides’ (1976, 19).

## **The Financing of Hospital and Medical Insurance Programs**

Ontario is one of the three provinces which still rely on premiums to finance a part of health care costs, the others being Alberta and British Columbia. Up to now, premiums have covered between one-fifth and one-third of Ontario’s insured health costs; the figure currently stands at 28 per cent, significantly higher than in the other two provinces. Individuals pay \$228 a year with full or partial assistance for those with taxable incomes below \$4000; the family rate is \$456 a year, with full or partial subsidies for families with taxable incomes below \$5000.<sup>7</sup>

The issue of health insurance financing aroused a good deal of public attention after the Ontario government recently proposed to raise premiums by 37.5 per cent. The opposition parties objected to these proposals, attacking premiums as a form of regressive taxation, and the increase was limited to 18.75 per cent. At the same time an eight-member committee — the Select Committee on Health Care Costs and Financing — was established to evaluate this issue and suggest alternative methods of financing.<sup>8</sup>

A great deal of testimony was received by the Committee attesting to the regressive character of premium financing. But the majority report of the committee did not condemn this system, although there was general consensus that the present method for easing its regressive features — assistance for those

<sup>7</sup> These figures include an increase of 18.75 per cent rather than the proposed 37 per cent, the lesser figure being a temporary government compromise in light of heated opposition.

<sup>8</sup> The mandate of the Select Committee was broader than that of examining the financing of health care, though this was its principal objective.



whose income fell below a base figure — was ineffective.<sup>9</sup> A number of other weaknesses of the present premium system in Ontario are worth noting.

1 Premiums impose a disproportionate burden on low-income families. Although the poor are exempted, the near-poor pay as much in premiums as do others; however, the judgment that a certain tax — if for this purpose we may treat premiums as taxes — considered in isolation, is regressive is not enough to condemn it. The equity of the whole tax system is what matters. Moreover, as a result of inflation, the premium system is now, despite recent increases, a less regressive feature of the whole system than it was earlier. And finally a significant fraction of the total premium income of the province is paid, in the first instance anyway, by employers for their employees.

2 A uniform family rate means that a family of two pays the same amount as a family of eight.

3 Premiums are relatively costly to administer.

4 Premiums are not likely to have any significant impact on patients' use of health services because they are not experience-related.

5 Premiums do not promote consumer awareness of the costliness of health care, because the revenues collected through them are not earmarked for health care purposes and represent only a small proportion of total costs incurred. Indeed they may create a false impression in the minds of the public that those costs are lower than in fact they are.

6 Many of those eligible for full or partial premium assistance have not applied for it, being unaware of their eligibility or of the application procedure involved.<sup>10</sup> The system has so far been unable or unwilling to enforce universality, though it is likely that this deficiency could be easily corrected.

7 Instances were cited before the Ontario Select Committee (1978) of persons neglecting to pay premiums until an occasion arose for which medical care was required. Retroactive payments were seldom collected in such instances. People who in this manner avoid paying premiums come to view them as 'voluntary tax.'<sup>11</sup>

8 Rates require periodic upward adjustments if the revenues deriving from premiums are to continue to be pegged to a fixed ratio of total health costs incurred. Moreover, the exemption income levels for those receiving full or partial assistance in inflationary periods also need periodic adjustment.

Can the premium system be overhauled? The problem of regressivity can

9 When the Select Committee learned that only one-third of those eligible for full subsidy, and almost none of those eligible for a partial subsidy, had applied, it proposed a tax credit system 'that would ensure — as the current subsidy system does not — that all those entitled to premium assistance in fact receive it' (Ontario Select Committee on Health Care, 1978, *Report*, 19).

10 This was revealed in testimony from the Ministry of Health before the Select Committee.

11 An individual may at this point wish not ever to be insured. Indeed, paying for medical costs incurred may be less costly for an individual than paying the required premiums; obviously this cannot be true of the whole population.



be countered by introducing graduated premiums which rise in relation to income. Premiums can also be made a function of family size instead of the current two-rate (single and family) structure. Also, the need for periodic and substantial adjustments can be eliminated by indexing the system to the rate of inflation or, better, to the rate of increase in health costs. But such a system would obviously be complex and difficult to administer. Because many families change in size and income status, it would be necessary to correct for over- or underpayment of premiums under a modified premium system. In short, this new system would not solve all of the problems cited above. The Council believes that while the current system can be modified to counter a number of these shortcomings, the result would probably be both administratively complex and costly.

There are, of course, alternatives to the premium system, as it is or as it might become, for financing health care costs. One such was proposed by the Council in 1976: a patient cost-sharing proposal which would relate a family's financial involvement to both use of services and income levels:

In Ontario, it would be quite feasible, with some adjustments to our current administrative and information system, to establish a given family's use of the health care system, as well as a dollar measure of the benefits received. These benefits, subject to possible exemptions and catastrophic limits, could be subjected to a form of income taxation. This whole process would be integrated with the income tax returns process in a manner such that the following conditions held:

- (a) taxation and hence financing of health care would be related to use and benefits received;
- (b) the poor would avoid paying because taxation can be geared to income, exemptions, and other ability-to-pay criteria;
- (c) ceilings would exist on the amount of taxation, thus building a catastrophic insurance feature into the system;
- (d) averaging provisions would exist to permit a smoothing out of tax payments; and so on. Of course, whether such a system is desirable must be judged in terms of a number of factors including ease and cost of administration and how well it permits the achievement of the social and economic objectives of Ontario's health policies. (OEC, 1976, 15)

In the Council's view the major strength of the scheme is that 'the financing of health care expenditure would be on a more progressive basis than is the case in the current system' (*ibid.*, 49). This proposal has recently been subjected to a critical and detailed examination.<sup>12</sup> As a substitute for the current premium system or for uniform deterrent fees or deductibles, the Council scheme appears superior on wealth transfer or equity grounds (our principal objective in suggesting it) and not significantly inferior in its impact on other system objectives. Unfortunately, neither scheme would help hold down total costs of health care.

Our proposed scheme has other distinct drawbacks. It would be quite difficult for technical and political reasons to link health care utilization information with income data in view of the current unease about confidentiality. Moreover, the problem of developing better estimates of the value of

<sup>12</sup> See the forthcoming study by Barer, Evans, and Stoddart (1979).



hospital care to a particular patient would still have to be solved (*ibid.*, 44). Per diem costs are unsatisfactory. Disease costing is not only technically very difficult but also prohibitively expensive for the myriad of diagnostic cases encountered in a hospital. Measures are being developed to improve upon crude per diems while at the same time avoiding the complexities and costliness of disease costing (Barer and Manga, 1978). Such measures would facilitate the hospital costing required by our proposed scheme; without them the allocation of hospital costs to particular patients and their families would inevitably be arbitrary and inequitable.

We agree that while our proposed scheme would increase consumer awareness of the use and costs of health care services, this in itself would not necessarily lead to lower utilization and health care costs. That, however, was not our major objective in recommending the scheme.

If one rejects premiums and direct charges in general as an ineffective and (with the exception of the vertical equity built into the OEC scheme) inequitable means of deterring unnecessary utilization, and rejects too the Council's income-linked plan, one could still consider relying upon taxes as the sole source of revenue for financing publicly insured health care services. To replace the estimated \$1 billion in OHIP premiums this year would require a tax increase of something less than 3 per cent.<sup>13</sup> A government might well consider the replacement of premiums with income taxes politically awkward. Such a view, however, seems to imply tax illusion on the part of the public, since the new income tax would simply replace an equal amount of premiums — which in some ways are the same as taxes for the average taxpayer.

The main attraction to the government of the income tax option is that total revenue from this source is directly linked to incomes. Therefore, in the long run, securing a gradual increase in revenues through the income tax may be less visible and politically less painful than through periodic increases in the premiums. Since the collection mechanism is already in place, no additional administrative costs will be incurred. Under an income tax system, the elderly who could afford to pay would do so automatically. This would remove the inequity in the present system of exempting from premiums the entire population aged 65 and over, regardless of financial means. If the government believed this additional burden on the aged to be undesirable, it would not be difficult to incorporate a tax credit or an age exemption into the tax return to mitigate or offset the effect of replacing the current premium system with increased income taxes.

There are, of course, still other ways of raising the revenue necessary to

13 The 3 per cent is calculated by dividing the estimated premium revenue for Ontario in 1978 (\$1.2 billion) by the estimated aggregate taxable income base for the province (\$37 billion). The figures were provided by the Fiscal Policy Division of the Ontario Ministry of Treasury, Economics, and Intergovernmental Affairs. The 3 per cent would be reduced because corporations that now pay the OHIP premiums of their employees would have to pay higher taxes as their profits rose; there would be other sources of added taxes too.



replace premiums. Social insurance programs customarily rely in part on payroll taxes imposed on the employer. The Quebec health insurance plan, for example, is financed through income taxes and a payroll tax. Claude Castonguay, social services minister in Quebec from 1970 to 1973, has argued that both the public and the employers have a responsibility to help pay for health costs.

The problem with payroll taxes is that they tend to be reflected in lower wages and/or higher prices, and in either case real wages are reduced. Ultimately a payroll tax is probably less progressive than an income tax. Still other taxes could be considered, but again the choice can only be made in the context of the province's total tax program and the (political) choices the government is prepared to make on such matters as equity, efficiency, and administrative convenience.

The Council in 1976 advised against the use of deterrent charges and wishes now to reaffirm this position. We recognize that there is some support for introducing a fee per physician visit or a charge per hospital day.<sup>14</sup> Its proponents argue that such a charge would decrease medical and hospital utilization — some adding that it would deter 'frivolous' or 'unnecessary' use — and would provide a new source of revenue. We believe, however, that deterrent charges would achieve none of these objectives. The deterrent approach has many shortcomings. If uniformly applied (with no exemptions), deterrent fees would be inequitable, both vertically and horizontally. The experience of Saskatchewan with deterrent fees has demonstrated that the poor are the ones most likely to be deterred, and it is not clear that the poor are the primary recipients of frivolous or unnecessary care.<sup>15</sup> If fees are high enough they will encourage the reappearance of private insurance coverage, thus counteracting any deterrent effect at least for those covered by such insurance. Moreover, the aged, the poor, and the chronically sick, who are big users of health care, would most likely be exempted from deterrent charges; again no deterrent effect. Finally, if deterrent fees actually do deter, physicians may respond by pressing for higher fees per visit to prevent a fall in their incomes.

The recommendation of deterrent fees is often based on the presumed existence of patient abuse of the system. Much of the evidence is anecdotal, while studies in Quebec (Enterline, 1973) and in Ontario (Wolfson and Tuohy, 1979; Wolfson and Solari, 1976) suggest that the significance of this phenomenon is not great. The subject of patient abuse is a contentious and difficult one chiefly because the very concept is difficult to define and hard data that could shed light on the issue are unavailable.

14 For some recent examples see Special Program Review (1975), the Taylor Report (1977), and the testimony by the Ontario Medical Association to the Ontario Select Committee (1978).

15 For a summary of Canadian evidence regarding the impact of deterrent fees, see Beck and Horne (1978).



## Pharmacare and Denticare — New Public Insurance Programs

The major conclusion of a recent study (Evans and Williamson, 1978) of extending insurance to cover prescription drugs and dental care is that the benefits of a universal public program for either denticare or pharmacare are not great and are probably outweighed by the costs. Far more desirable are specific and limited public programs designed to alter the patterns and raise the efficiency with which these services are delivered. Such programs would operate on the supply side of the market and not merely underwrite the demand for dental services and drugs for the population groups covered. The objective would be to avoid the major deficiency of the existing medical and hospital insurance programs — that very little has been done about the organization of the health care delivery system since they were introduced.

The study shows that universal denticare and pharmacare programs would reduce risks only slightly because, for the vast majority of the population, pharmaceutical and dental expenses have been relatively unimportant in their budgets. The risk-reducing benefits of pharmacare would be enjoyed for the most part by the elderly, and those of denticare would be practically non-existent. Strong income-redistribution effects of these public insurance programs are also difficult to find. On the whole, pharmacare would tend to redistribute income to the elderly and the chronically ill, but for most of the population the effects would be small. Denticare, however, would redistribute income from lower- to upper-income groups except as it led those with lower incomes to make much more use of dental services than they do now, which presumably would be one of its purposes.

Both the pharmacare and denticare programs would raise demand, though it is difficult to estimate the size of the increase or predict what part of the increased utilization would go to meet legitimate needs. The Council believes that even now one of the most troublesome problems in pharmacy is the overconsumption of prescription drugs, particularly in certain socio-economic or age groups.<sup>16</sup> These drugs, it has been found, sometimes provide no benefit to their users, and occasionally they have harmful side effects. For this reason we believe that extending public insurance to cover prescription drugs would be unwise and might in fact harm community health. Increased dental care can be expected to have a positive effect on health, but in terms of costs and benefits we believe there may be better alternatives such as fluoridation of the water supply.

<sup>16</sup> Overconsumption is meant to imply, of course, that consumers would be no worse off as a result of ingesting fewer drugs. This situation results from the interaction of a number of factors. For the practitioner, prescribing a drug is often a relatively quick and expedient way of dealing with a given condition. Drug prescriptions may also placate those people who feel untreated if they leave a physician's office empty-handed. Finally (and perhaps most important), the pharmaceutical manufacturing industry has a strong and obvious interest in maintaining a high sales volume.



With respect to the efficiency with which prescription drugs and dental services are produced, neither insurance program is likely by itself to promote more efficient production. Public pharmacare and denticare would remove the market constraints on pricing that now exist. The programs would therefore freeze in place the relatively inefficient delivery systems we now have instead of creating pressures that would lead them to be restructured and rationalized.

Evans and Williamson (1978, 227) give reasons for believing that a public program aimed at promoting greater efficiency in the pharmaceutical sector could lower the total unit costs of drugs by about 28 to 37 per cent in Ontario. They recommend adoption of a program like that in Saskatchewan under which the provincial government enters the wholesale drug market, either directly or through private agents, to bid down the supply price of drug manufacturers through bulk purchases. Under this program, patients would be responsible only for a dispensing fee each pharmacist would set independently and would be free to advertise. 'Unlike the flat charge per prescription, such a program maintains and strengthens efficiency-promoting incentives in the drug delivery system. Such strengthened incentives are consistent with reduction of the average out-of-pocket cost of drugs to the patient by as much as two-thirds' (ibid., 224).

The major potential source of efficiency gains in the dental field would be through the use of much less expensive manpower. A public dental care program for children delivered through the school system and built around dental nurses or therapists would attain greater utilization levels and still be cheaper than a program based on private practice (ibid., 225).

The government should also consider seriously other policies for reducing the costs of dental care:

- 1 More rigorous application of competition policy.
- 2 The advisability of the provincial government's reassuming from professional dental bodies their power to regulate the organization of dental practices.
- 3 Permitting dental nurses and dental hygienists to practice independently of dentists, as denturists now do.
- 4 The introduction of free public dental clinics with high dental-auxiliary/dentist ratios as a part of community health centres or public health clinics.

The Council recognizes that while each of these programs has potential advantages, it may also have drawbacks. Further analysis is obviously needed.

If some of these steps are undertaken, it will probably be desirable to raise the output of dental auxiliaries, hygienists, assistants, and technicians from colleges of applied arts and technology. Perhaps their training can be carried on with some of the resources now devoted to training dentists.



## Occupational Health and Safety

At the workplace converge many of the important questions of health, labour, and the environment. Debates over preventive, as against conventional curative, medicine have uncovered a surprising proportion of diseases of occupational origin. Questions of quality of work-life and labour disputes are increasingly concerned with occupational safety and health. Environmental pollution often has its source in the workplace and may therefore create a larger health hazard for the workers than for the public at large. The attention now being devoted to occupational health and safety is in marked contrast to the previous neglect of these issues. The major factors underlying this change include the following:

- 1 injury rates in industry have risen slightly since 1967, though fatality rates have declined;
- 2 occupational disease is now seen to be of real importance; and there is now a fuller realization of the economic costs of occupational disease and injury;
- 3 technological change in both processes and products means new exposure to unknown dangers;
- 4 environmental (ecological) concern has grown;
- 5 the character of the work force has changed (with increases in educational levels, income, etc.);
- 6 emphasis has been shifting towards prevention and away from reliance on compensation and treatment.

Many of these factors, of course, are highly interrelated.

Two fundamental questions arise in connection with injuries or damages to health arising out of work experience. One of them — compensation for the victim — is under the control of the Workmen's Compensation Board, and on that subject we have nothing to add. The second has to do with efforts to reduce the exposure to these risks, an aspect that has received less attention.

It would be incredibly wasteful and expensive to try to reduce to zero the risks to which the worker is exposed. The proper goal, as for every other aspect of the economy, would be a compromise between the gains from reducing risk by a certain amount and the costs of that reduction. The setting of suitable goals in this way is a function that the government alone can perform.

Why can this most important question not be left to the employer and the employees? One reason is that employees ordinarily do not have at hand the information needed for a proper answer; to acquire this information demands access to scientists, engineers, cost accountants, medical personnel, and so on. Nor would an employer be much better situated, especially since he has no private interest in getting it all together. However, the Workmen's Compen-



sation Board could make an important contribution by examining work risks and publicizing its findings.

Furthermore, such a policy would create incentives for an employer and his employees so to alter production processes and work patterns as to bring risks down to the target level. In some degree this is already done. The WCB determines from recent experience which industries have an unduly high level of injuries, and from those industries it requires higher contributions to the fund out of which compensation is paid. Perhaps more of this should be done, but there is a danger in taking the principle too far. If, for example, each firm were experience-rated and its contribution to the fund determined by this rating, it would in effect be insuring itself, a possibility, perhaps, for a very large firm, but a prescription for collapse for smaller ones.

On occasion the harm done by a firm is felt not only, or even mostly, by its own workers; it is experienced by other parts of society — by those who live downwind, for example, or by the consumers of its product. The same principles of compensation and incentives to lower risks applicable to employees could perhaps be at the disposition of a companion body assigned responsibility for non-employees affected by a firm's operations. The Council believes that the approach taken in the United States, specifically through its Occupational and Health Act of 1970 (OSHA), is not a desirable one for Ontario. Under this Act an independent federal agency was established with the responsibility of reducing workplace injuries and disease by relying almost exclusively upon regulations and the establishment of standards. Its accomplishments have not, we believe, been great; yet it imposes high costs upon some firms. By promising too much and adding seriously to business costs, it has alienated the business community and especially the smaller firms; by delivering too little (of what was promised) it has lost the support of employees and especially of organized labour.

It does not follow that no regulation at all would be the best answer. When toxic materials are used in industry, their use and disposal become a social concern. But what to control and how to exercise it must be decided in light of the costs of reducing risks and of the benefits such reductions will yield.

## Dissent

The Council's paper on Health comes at a critical point in an already widespread debate. In the main, we endorse the paper's observations and conclusions; cost pressures are likely to build again, and this will confirm the desirability of achieving some consensus as to the appropriate method of financing the system. We have, however, reservations concerning the paper's suggestion that major financing revisions be contemplated to make the system more progressive.

To the extent that a problem exists for premium payers at the lower end of the income scale, it would seem more sensible to make the necessary modifications to the existing scheme. Altering or replacing a billion-dollar revenue source involves major reform of the tax system. The impact on the economy would be significant. The collective bargaining process would be directly affected, as would individual and corporate income taxes. One wonders whether the presumed deficiencies warrant so extensive an overhaul.

The OHIP premium system grew out of an insurance concept. Premiums may be regarded as other than a tax and as such assessed away from considerations of pure equity, particularly if the combined system of taxes and other levies is accepted to be generally equitable. Regarding this last, no conclusive evidence has been adduced to the contrary. It does not appear that the population at large or the major contributors — who are employers — find the system to be onerous or unfair.

Reform for its own sake is a dubious proposition. Evident inequities can be addressed far more expeditiously by restructuring the premium system.

T.E. Kierans

J.D. Gibson



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# Housing

## Introduction

During the late 1960s and early 1970s, the price of housing rose rapidly. Commentators proclaimed that Ontario faced not simply a 'housing problem' but a 'housing crisis.' Governments of all levels responded by changing existing programs, initiating new ones, and greatly increasing their expenditures. As a contribution to the evolution of housing policy, the Ontario Economic Council in 1976 published a paper entitled *Issues and Alternatives 1976: Housing*. Its purpose was to offer a framework for discussion by systematically examining Canadian housing policy as it operated in Ontario and advancing a number of criticisms and recommendations for public consideration.

Since that time the situation has altered considerably. The price of housing is no longer rising as rapidly, and the sense of crisis seems to have passed. All governments, federal, provincial, and local, are under pressure to restrain their expenditures and their interventions in the economy. In response, major changes have been made in the level of expenditure and form of assistance under both federal and provincial housing programs operating in Ontario. These alterations make it appropriate to review and update the Council's proposals.

The short discussion which follows is divided into two parts. The first part outlines the nature of the housing problem. The second examines current policy and makes a number of recommendations.

## The Housing Problem

Public concern about housing issues is many-faceted and probably cannot be fully described in a short summary. However, a review of its principal

dimensions, reflecting problems of income, market, and ownership, provides a useful background.

Many households, particularly those of single-parent families and elderly people, cannot afford to secure what society believes to be an adequate quantity of housing, given their incomes and the prevailing prices. Often they live in dilapidated or overcrowded quarters. If they do secure adequate housing, many are unable to obtain other necessities. While this may appear to be a housing problem, it is more appropriately seen as a problem of income. Poor people live in poor housing not because of some failure in the operation of the housing market but because they do not have enough money to buy anything better. If they had the resources, the market would supply adequate housing. When seen in this way, the problem deserves to be dealt with through our income security system. This approach might have to be modified if taxpayers are willing to redistribute income to these households only in so far as it is spent on housing. In this case the assistance would be accompanied by constraints on how the money is to be spent.

The second dimension of the housing problem concerns the operation of the housing market: the price of housing, both for rental and for ownership, can rise too high because of impediments to the normal functioning of a market economy. For example, if there existed monopoly in the land market, or restrictive practices by suppliers of other inputs such as labour or building materials, higher prices might result. Similarly, undue restrictions on the approval of new developments or on the provision of sewer and water services can raise prices. Where such impediments exist, housing policy should seek to remove those whose benefits do not outweigh the costs imposed on housing consumers.

The final dimension of the housing problem concerns home ownership. If home ownership confers benefits both on the family and on society, the existing stock of housing will not contain as many owner-occupiers as society desires because families do not take into account the benefits to society when deciding whether to own or rent. In this situation the goal of government policy should be to achieve a different pattern of ownership of the housing stock. It is sometimes argued that in a just society certain groups, usually middle-income families with children, should be able to own homes. If, given their incomes and current prices, they cannot afford to purchase homes, the purpose of public policy, it is said, is to transfer resources to them.

Canadian housing policy has focused on the income and ownership problems but paid little attention to the functioning of the market.<sup>1</sup> In its

<sup>1</sup> A review of housing programs is available in *Issues and Alternatives 1976: Housing* (Toronto: Ontario Economic Council). Other surveys are available in Lawrence B. Smith (1977) *Anatomy of a Crisis* (Vancouver BC: The Fraser Institute); Gordon W. Davies (1978) 'Urban housing markets and government policy in Ontario' (Toronto: Ontario Economic Council) (mimeograph); and George B. Fallis (1978) 'Housing programs and income distribution in Ontario' (Toronto: Ontario Economic Council) (mimeograph).



review in 1976, the Ontario Economic Council expressed the belief, which it continues to hold, that income and market problems are of primary importance. The aim of our policy should be to assist those in need and to ensure the smooth functioning of the market economy.

## Current Policy and Directions for Change

This section examines current housing policy in Ontario. The survey includes not only explicit housing programs providing assistance to homeowners, to renters, and to municipalities for the provision of community services, but also government activities, such as income taxation and regulation, which have a substantial impact on our housing problems.

Housing policy in Ontario has changed significantly over the last several years. Table 1 documents federal spending in Ontario under the major programs providing direct assistance.<sup>2</sup> These data, however, do not reflect a series of major proposals made in April and May 1978 by the minister of state for urban affairs outlining the federal government's 'New Directions in Housing.' One might forgive an observer of the past decade's change-every-month housing policy from wondering whether these announcements have any special significance. It appears, however, that they are intended to establish a framework to be used for many years.

The broad objectives of the new programs, as stated by the minister, are 'a substantial increase, up to 30 000 units per year from the present level of approximately 19 000 units, in the amount of housing available to meet the needs of the lowest income people; the disentanglement of the complex set of arrangements under which the federal and provincial housing and community service programs have been operating; and the fullest possible utilization of private sector capital for activity previously funded by the federal government.'<sup>3</sup> Each of these three objectives represents a shift in emphasis. The problems of low-income households are to take precedence over the problems of those seeking to purchase their first home, which had dominated in the recent past. The federal government is promising to withdraw from detailed scrutiny of program administration and from dictating precise expenditure priorities, activities which have always been part of the shared-cost programs. Recent housing policy had involved massive commitments of public funds for mortgage loans; now these loans are to be cut back.

2 Many housing programs are not included. As well, income security programs which assist households in acquiring shelter are omitted. For a further discussion of the income security system in Canada see the paper following on Social Security.

3 The objectives and details of the new directions are outlined in CMHC (1978) *New Directions in Housing* (Ottawa: Central Mortgage and Housing Corporation).

TABLE 1: Housing loans and cash subsidies by Central Mortgage and Housing Corporation in Ontario, selected years (\$000)

	1970	1972	1974	1975	1976	1977
<i>Loans</i>						
Public housing	128 438	113 681	82 830	103 815	121 715	49 319
Entrepreneurial housing	125 191	44 108	20 167	96 383	—	—
Non-profit and co-operative housing	3 804	6 673	56 010	43 432	74 599	61 057
Residual lending	78 600	7 200	6 100	—	—	—
Assisted home ownership	—	—	101 344	129 082	2 743	293
Sewage and water treatment	23 138	51 916	86 609	61 402	110 321	92 338
Land assembly	9 653	6 697	57 760	34 574	42 077	31 005
<i>Cash subsidies</i>						
Public housing	11 200	28 925	56 600	53 536	63 637	83 554
Assisted home ownership	—	—	50	916	2 399	2 740
Sewage treatment	4 287	8 510	6 988	12 809	42 882	36 124

Source: *Canadian Housing Statistics* (various years) (Ottawa: Central Mortgage and Housing Corporation)



## RENTAL PROGRAMS FOR LOW- AND MODERATE-INCOME HOUSEHOLDS

In the past, Canadian governments have offered assistance to households with low incomes through programs which make rental housing available at less than market rates. This basic strategy continues, although the form of several programs will be changed.

The major program assisting households with very low incomes, public housing, will remain in its present form for a transitional period, but eventually will be replaced by a system of aid to provincially or municipally owned non-profit corporations. At present, Central Mortgage and Housing Corporation (CMHC) provides loans at slightly less than market rates for 90 per cent of the cost of the building. The provincial housing agency supplies the remaining 10 per cent and arranges for the construction and management of the building. Tenants are charged a rent geared to their incomes. The difference between operating costs and actual rent payments is shared by three levels of government, the federal government covering 50 per cent of the deficit, the province 42½, and the municipality 7½. Under the new arrangements, CMHC will provide National Housing Act (NHA) insurance on mortgage loans, but the funds must be obtained from approved private lending institutions.<sup>4</sup> CMHC will also offer annual assistance to offset operating losses calculated as the lesser of two amounts: the difference between the rents which would be necessary to cover costs using private financing and the actual rents paid; and an amount which effectively reduces the interest rate on the mortgage loan to 1 per cent. A mixture of tenants will be eligible to live in the housing, including low-income families who will be charged a rent geared to their income (likely 25 per cent of income) and those of higher income who will be charged a rent equal to the market rent of comparable accommodation. These market rents imply some subsidy, for they are likely below the rents which would prevail if the building were privately financed and operated. The amount of federal assistance will be established annually. If further public monies are required to assist households with very low incomes, as is certain to be the case, the province must provide the additional assistance. At present, no decision has been reached regarding provincial assistance or possible municipal contributions under the new program. Based on most forecasts of operating costs and tenant incomes, the federal contribution will be larger than before in the early years of a project but will become smaller over time.

The non-profit and co-operative housing programs, which in the past offered public loans on attractive terms to finance rental housing for moderate-income households, are also revised. The non-profit groups and co-operatives will now be required to seek private-sector mortgage financing<sup>5</sup>; and, for the

4 CMHC will offer loans for the purchase and renovation of existing structures.

5 CMHC will offer loans as a lender of last resort, even up to 100 per cent of the cost of a project.



first time, annual assistance will be available to offset operating losses. The setting of rents and the determination of annual operating assistance is similar to that available to provincial and municipal non-profit groups, outlined above.

The other major source of assistance for low-income households,<sup>6</sup> the Rent Supplement Program, is to continue as previously with the strong endorsement of the federal and provincial governments. Under this scheme, private landlords make available up to 25 per cent of the units in a building to households on the waiting list for public housing. The tenants pay a rent geared to their income. The difference between the market rent for the apartment and the actual payment is shared by all levels of government, the federal government contributing 50 per cent, the province 42½, and the municipality 7½.

This package of programs, in the opinion of the Council, deserves both praise and criticism. The new funding arrangements will encourage the mixing of households of various income groups in assisted housing projects. They permit groups outside the public sector to build housing for low-income households and encourage the use of private-sector mortgage funds. The Council believes these are beneficial developments.

However, all of the programs, like those they replace, must be criticized for the inequitable distribution of benefits. Only a small fraction of those eligible for assistance will actually participate in the programs; others in similar need will not receive similar assistance.

Furthermore, the announced goal of disentanglement has not been sought with vigour. CMHC will be involved in annual project-by-project examinations of provincial and non-government housing activities to establish the amount of federal assistance. The funding arrangements still contain incentives toward certain types of projects, reflecting a federal perception that other levels of government would not otherwise make the 'correct' decision. The Council believes that the form of assistance remains needlessly complicated.

Finally, the process of reform has created ambiguity about where final responsibility lies for the provision of rental housing for the lowest-income households. The federal government seems to be suggesting that it lies with the provinces. During the year prior to the federal announcements, Ontario had stated that municipalities must take the initiative in providing assisted housing.<sup>7</sup> The Council views this development with concern for two reasons. First, it is vital to the operation of responsible government that the functions of the various levels of government (even if shared) be clearly delineated.

6 The Entrepreneurial Program is reduced in scope, and the Assisted Rental Program (ARP) now offers only graduated payment mortgages with no further assistance and will be phased out as private lenders offer these mortgages.

7 This attitude is revealed, for example, in a speech by the minister of housing to the Provincial Municipal Liaison Committee, 8 February 1977.



Second, the responsibility for programs which redistribute income cannot lie at the local level. This would only encourage the needy to move to a generous jurisdiction and the wealthy to move to a stingy one. The responsibility for redistribution must be shared by all.

## HOME OWNERSHIP PROGRAMS

There have been equally significant developments in the area of home ownership assistance. They amount to almost complete curtailment. During the late sixties and early seventies the federal and provincial governments initiated several generous and costly schemes to assist middle-income households purchasing their first home. At one point, both levels of government were offering cash grants, together worth \$2000, to assist new purchasers. None of these programs remain. The residual lending program, which on occasion has been used to redirect resources into the construction of new homes, now makes very few loans. The Council supports this change in government priorities.

A number of factors, besides the pressure to restrain government expenditure, lie behind this curtailment. The rate of increase in house prices is now considerably lower than in the early seventies. In many locations house prices have fallen in real terms as the rate of inflation exceeds the rate of house-price increase; and in some locations nominal prices have fallen for short periods. Examination of available data reveals that incomes have risen faster than the costs of home ownership since 1961, and continue to do so (Fallis, 1978). Only the situation of a small group of people, namely those seeking to buy their first home, has deteriorated over the last decade. However, very recently their situation has again improved dramatically, as the data in Table 2 reveal. In 1961, 75 per cent of Ontario families could afford the mortgage carrying costs of the average house. By 1975, this had fallen to 39 per cent; but by 1977 it had rebounded to 51 per cent, and the improvement continues through 1978.<sup>8</sup>

In a careful study of the land and housing price explosion in Canada between 1972 and 1975, the Federal/Provincial Task Force on the Supply and Price of Serviced Residential Land concluded that the explanation of the boom was that 'an extraordinary number of things happened *at once* to stimulate demand extraordinarily.'<sup>9</sup> Inflation escalated; real income exploded; the stock market dropped sharply; mortgage credit was available at low real rates; and the families of the baby boom entered the housing market. All of these things combined to push up prices, which created expectations of further

<sup>8</sup> These calculations offer only a rough approximation to reality and illustrate only changes over time. Income alone is the measure of ability to purchase. Obviously, many more households could purchase the average house using savings and income (indeed many of these households already own a house).

<sup>9</sup> *Report of the Federal/Provincial Task Force on the Supply and Price of Serviced Residential Land* (1978, 20).

TABLE 2: House prices, carrying costs, and incomes, Ontario, selected years

Year	Average MLS price Ontario <sup>a</sup>	Conventional mortgage interest rate <sup>b</sup>	Annual carrying charges <sup>c</sup>	Percentage of Ontario families for whom annual carrying charges would be less than 25% of income <sup>d</sup>
1961	14 487	7.0	975	75
1965	16 815	7.0	1131	76
1971	27 254	9.4	2253	60
1975	49 211	11.4	4718	39
1976	52 979	11.8	5161	41
1977	55 017	10.4	4812	51

Source: <sup>a</sup> *MLS Annual Report 1977* (Toronto: Canadian Real Estate Association)

<sup>b</sup> *Canadian Housing Statistics* (various years) (Ottawa: Central Mortgage and Housing Corporation)

<sup>c</sup> The calculation assumes an 80 per cent mortgage amortized over twenty-five years.

<sup>d</sup> The income distributions for 1961 and 1965 were found in *Income Distributions, Selected Years 1951-1965*, 13-529 (Ottawa: Statistics Canada), for 1971, 1975, 1976 in *Income Distributions by Size in Canada*, 13-206 (Ottawa: Statistics Canada). The 1976 distribution was found by assuming that household incomes grew at the rate of per-capita GNP from 1976 to 1977.



price increases, which pushed up prices still further. The chance of this happening again is small, although not non-existent. The rate of growth in young families will continue at current high levels until the mid-1980s,<sup>10</sup> and a surge in the rate of inflation is certainly possible.

The major new initiative in the approach to assisting home owners is the decision to permit graduated payment mortgages to be insured under the National Housing Act.<sup>11</sup> Payments under a graduated payment mortgage start at a relatively low level, increase for several years, and then remain constant. A currently offered graduated payment mortgage of \$32 300, at 10½ per cent amortized over thirty years, has monthly payments in the first year of \$217 and monthly payments of \$347 after the tenth year. A constant payment mortgage would have monthly payments of \$317. The new instrument mitigates one of the major problems with mortgage borrowing in times of inflation: real payments fall over the life of the debt, implying a heavy burden in the early years. These new mortgages will stimulate both housing demand, by allowing more households to enter the market, and supply, by offering investors a new debt instrument with a low risk. The Council understands the caution of Canadian financial institutions in adopting the graduated payment mortgage and echoes their comments that a household should only borrow on such terms with a full comprehension of the implications.<sup>12</sup> However, it supports the approach of seeking a flexible response by private capital markets in dealing with home ownership issues.

After its examination of both rental and ownership housing programs, the Council believes the present approach to providing housing assistance in Ontario has several disadvantages. The distribution of assistance is felt to be inequitable because many households which are eligible do not benefit from the programs and because high-income households often receive greater benefits than those of low income. The programs are believed to constrain needlessly the freedom of choice of assisted households by requiring that the aid be spent only for rental or ownership housing or by limiting the choices of location or type of housing.

In the view of the Council, these criticisms suggest that a shelter allowance, in which a household would receive a coupon based on its needs and income for the purchase of housing in the private market, should be considered as a mechanism for the provision of housing assistance. The amount of assistance would depend on the cost of adequate accommodation in the community, the size of the family, and the family's income and assets. Families of similar circumstances would receive the same benefits, and the assistance would decline as ability to pay increased. The coupon could be used to pay any

10 Canada (1975) *Household and Family Projections for Canada and the Provinces to 2001*, 91-517 (Ottawa: Statistics Canada).

11 The Assisted Home Ownership Program (AHOP) and the Assisted Rental Program offer public funds as graduated payment mortgages. These will be phased out as private sector funds become available.

12 The principal outstanding on a graduated payment mortgage may for several years exceed the original loan.



expenses associated with obtaining accommodation: to pay rent, to pay the purchase or carrying costs of a home, to pay for repairs, or to pay property taxes. The Council generally supports the principle of providing subsidies in cash rather than in kind, but recognizes that in the case of housing most people prefer to see assistance linked to expenditure. Regardless of the form, the Council believes that housing programs should adhere to four basic principles: the assistance should permit freedom of choice on the part of the recipient; persons in similar circumstances should be treated in a similar manner; benefits should be established on the basis of need; and the program should be consistent with the over-all income security system in Canada.

The shelter allowance conforms to these principles. The Council is well aware of the difficulties of operating such a program<sup>13</sup> and of implementing a new initiative which substitutes for, rather than complements, existing programs. Nevertheless, this proposal warrants serious consideration as the model towards which our policy should evolve.

## COMMUNITY SERVICE PROGRAMS

In addition to explicit housing assistance, governments offer loans and grants to municipalities to assist the financing of community services. This aid is intended to balance the revenue-raising capabilities and expenditure responsibilities at the local level.

The federal government, as part of its new directions in housing, has announced that it will adopt a global approach in the provision of financial aid to municipalities by consolidating the Neighbourhood Improvement Program, the Municipal Infrastructure Program, and the Municipal Incentive Grant Program into one community services grant.<sup>14</sup> Funding, in the form of annual grants for capital expenditure or debt service, will be allocated to the provinces on the basis of urban population and municipal tax capacity. Each province may decide the rules it wishes to apply in allocating funds to its municipalities, provided the funds are spent on eligible services. Included in the list of eligible projects are the planning and installation of sewage treatment plants, community water facilities, and trunk storm sewers; the construction of community social, cultural, and recreational facilities; the planning and upgrading of neighbourhood services; and the upgrading of insulation on municipal buildings.

The Council supports this more flexible approach. It regrets, however, that incentive grants, which previously were paid to municipalities for the approval of medium-density, moderate-priced houses, are to be combined with other payments and therefore have become contingent on expenditures for community services. These grants should be allowed to stand alone, and

13 For a discussion of experiments with shelter allowances in the United States see David B. Carlson and John D. Heinbur (1978) *How Housing Allowances Work* (Washington, DC: The Urban Institute).

14 The Residential Rehabilitation Assistance Program (RRAP) will continue and be available to more localities.



should be seen as part of the system of intergovernmental fiscal arrangements which offers local decision-makers incentives to select policies consistent with the interests of the entire province.

Government loans to finance the acquisition of land banks are appropriately dealt with under the heading of community services. In the past, enormous amounts of money have been spent under various land banking programs. Since 1967, federal and provincial governments have in this way spent over \$750 million (see also Table 1). However, such commitments are unlikely to continue. Ontario has announced that it will no longer produce serviced lots from its holdings and will sell several large assemblies. The federal government, as part of its restraint program, cut back funds for land banking. The Council supports the curtailment of loans for large-scale assemblies, recalling the finding of the Federal/Provincial Task Force on the Supply and Price of Serviced Residential Land that government land-banking activities did not reduce the rate of price increase during the housing boom.<sup>15</sup> More appropriate methods exist to secure the control of land use which accompanies public land banking.

## INCOME AND OTHER TAXES

Several activities of the public sector less explicitly related to housing issues bear significantly on our housing problems and belong in any examination of housing policy.

The income tax system is especially relevant in this regard. These laws, by defining what income is subject to tax, influence the decisions of households on how much housing to buy and on whether to own or rent; they influence the decisions of investors on which assets to purchase; and they influence the decisions of firms on how much and what type of housing to supply.

The Canadian income tax laws give favourable treatment to the housing sector. The household which invests its savings by purchasing and living in a house pays fewer taxes than a household with similar income and savings which chooses to rent housing and invest in other ways. This advantage is offset for some renters by the exemption for the first \$1000 of interest income and the special treatment of dividends of Canadian corporations. Income realized from the sale of a taxpayer's principal residence is exempt from capital gains taxation. Savings which are subsequently used to purchase a house may be deducted from taxable income to a maximum of \$1000 per year and \$10 000 during the lifetime of a taxpayer, using a Registered Home Ownership Savings Plan. Landlords may deduct for tax purposes depreciation which is in excess of actual depreciation. These provisions are enormously costly to other taxpayers and represent implicit expenditures larger than any housing program's expenditures.

The Council is of the opinion that these tax provisions should be closely

<sup>15</sup> *Report of the Federal/Provincial Task Force* (1978, 58).



examined. Despite all the energy devoted to revising housing policy, they have not received the attention they deserve. More neutral treatment of income from all sources, particularly income from all kinds of saving, should be an objective of both over-all economic policy and housing policy. The Council, while recognizing the inherent ambiguity of such measurements, recommends that implicit expenditures be estimated and recorded as part of the budgeting process at all levels of government. Such information is needed in assessing whether the special tax provisions are justified.

It has been suggested that mortgage interest and property taxes should be deductible from taxable personal income. If the flow of services from owning a house were recognized as income and subject to tax, the deduction of mortgage interest and property taxes should be permitted as expenditure for the purpose of earning income. To offer these deductions alone, however, would only further bias our tax system.

There are other tax laws which have a significant impact on the housing market. Changes over the last several years in personal and corporate income tax laws appear to have made private investment in residential real estate less attractive. The Ontario Land Speculation Tax, which has now been terminated, encouraged concentration in the real estate development industry. The Ontario Land Transfer Tax imposed on non-residents may have contributed to reducing private construction of rental buildings. Each of these unintended side-effects resulted from the pursuit of a desirable objective. It is beyond the scope of this paper to suggest appropriate tradeoffs between competing objectives,<sup>16</sup> but the Council urges a reassessment of these tax laws with special attention to their effects on housing markets.

## REGULATION OF HOUSING MARKETS

As indicated earlier, the Council feels that securing a competitive housing market is an essential part of an effective housing policy. Unfortunately, this dimension of the housing problem continues to be neglected.

The most evident and necessary reform in this area is the removal of rent controls. As Canada emerges from wage and profit controls, rents should be decontrolled as well. The longer the rent controls remain, the more jolting the adjustment will be when they are removed, and thus the more tempting to leave them on. Rent controls appear to solve the problem of rising rents, but in fact they tend to make it worse. The demand for rental accommodation is increased while the supply is reduced. The redistribution from landlord to tenant is inequitable. The Council reiterates its opposition to rent controls and accords their removal the highest priority.

It is sometimes alleged that the concentration of land ownership or of development firms has caused an increase in the price of housing, so that strong regulatory activity is required to curb this market power. The Council

16 For a fuller discussion of these taxes see Smith (1977).



commissioned two studies which examine these allegations.<sup>17</sup> Both reported finding no evidence of sufficient market power to influence prices. The Federal/Provincial Task Force conducted further research and reached the same conclusion. However, these investigations identified significant forces, many resulting from public-sector activity, which encouraged concentration in the land and development industries. Increases in the lot levies on new developments, increases in the quantity and quality of services which must be financed by a developer before any revenue is received, and increases in the riskiness of development proposals brought about by a long regulatory process, all tend to favour the large firm over the small. The Council urges the province to examine these forces and monitor carefully the industrial organization of the housing industry.

The final area of regulatory activity to be considered is the planning and approval process for both new developments and redevelopment. Regulations establish the level of servicing required, the type of houses which get built, and which redevelopments are acceptable. The process imposes extra costs by requiring the use of lawyers, consultants, and, most important of all, time. Each regulation or each approval may be insignificant in itself, but cumulatively they have a significant impact on the growth of the housing stock and the price of housing. The Council is of the opinion that the outcome of the regulatory process is best understood, not as a bureaucratic phenomenon, but as a political decision by existing residents of local communities.

An assessment of the planning process requires a delicate balance between a host of desirable goals, including municipal accountability, protection of individual rights, adequate public safeguards, and adequate production of housing. There can be no doubt that the planning process raises prices in the long run, and equally no doubt that some planning controls are needed. The central question is whether we in Ontario have made an appropriate tradeoff or, even more fundamentally, whether we have the appropriate public decision-making mechanism to make such tradeoffs. The Council feels that the existing planning and approval process is excessively complex, often very unclear in its procedures, and subject to unnecessarily costly delays and uncertainties. The Council joins those calling for reform and recommends its recently released discussion paper, *Reforming Planning in Ontario*,<sup>18</sup> for consideration in the public debate. When judging any reform proposal, the Council urges that two points be remembered. Local autonomy can lead to policies which conflict with society's wider interests; for example, we may collectively agree that housing for low-income households is required, yet individual municipalities might not approve such housing. Secondly, any increase in development controls frequently is accompanied by higher prices.

17 The two Council studies are R.A. Muller (1978) *The Market for New Housing in the Metropolitan Toronto Area* (Toronto: Ontario Economic Council) and J.R. Markusen and D.T. Scheffman (1977) *Speculation and Monopoly in Urban Development* (Toronto: University of Toronto Press for the Ontario Economic Council).

18 Bossons, J. (1978) *Reforming Planning in Ontario* (Toronto: Ontario Economic Council).



## Dissent

While much in this paper is worthy of consideration, there are a number of areas where I find myself either in disagreement or questioning some of the suggestions.

The paper seems to stress unduly the need for home ownership, which, of course, is a normal middle-class ideal; whether that ideal can be sustained or extended in our disturbed economy is debatable. Home ownership in a single-family dwelling is the dream of the past, perhaps not the wave of the future.

The researchers say *if* there existed a monopoly in land ownership; surely in the Metro areas such a monopoly does exist and has been well documented.

There seems to be another suggestion that the housing market is not to blame, that the problem is merely the lack of money on the part of the prospective home owner. I leave this to the reader of the paper to analyse.

The paper discusses the cost of housing but in my opinion does not lay enough emphasis on the cost of the land and the cost of money. It is trite to say that land values have soared and interest rates are now almost prohibitive.

The paper does discuss land banking and its apparent abandonment by governments. It also discusses tax relief. These sections are worthy of careful study.

In my opinion the whole situation calls for government intervention in a healthy manner, to remove bureaucratic obstacles and to assist in supplying low-rental housing. Public housing is necessary to create a market, where a reasonable supply of affordable houses will create the necessary competition.

The paper, after examining the problems and spelling out the difficulties, suggests, among other things, the removal of rent controls. To me such a course, until there is an adequate supply of affordable housing, is an invitation to disaster.

I am sorry to have to give such a strong dissent, but I feel strongly on this subject. I agree with the Council that the whole situation needs radical rethinking. The Council paper very adequately spells out the present programs and discusses some of the alternatives. The Council recognizes that many of the remedies will call for political decisions, that this is a government responsibility and not an area where the Council should arrive at political conclusions.

I hope the paper will receive wide circulation and careful study and that my dissent will add to that purpose.

D.B. Archer



# Social Security

## Introduction

Canada's social security system has grown incrementally as particular programs were added to meet special needs. Since the mid-1970s it has become increasingly apparent that this system is failing in at least two important respects. First, persons working full- or part-time for very low incomes are virtually excluded from the network. Second, the incentives for low-income families to improve their financial position are inadequate. A solution to the first problem requires some form of supplementation to the incomes of the working poor, as well as the extension of supportive services. If the second problem is to be effectively resolved, the network of social security programs must be rationalized and co-ordinated to offer continuous incentives for all families to improve their incomes.

In its 1976 discussion of social security policy the Ontario Economic Council stressed the necessity of both these reforms and suggested that they could be simultaneously achieved through the introduction of a negative income tax. This program would replace much of the existing social security system with a guarantee of a basic minimum income adjusted according to family size. Benefits paid under the program would be reduced by a percentage of other income available to the family. Since recipients would lose only a portion of benefits as income increased, work incentives would remain for families at all levels of income.<sup>1</sup>

In 1967 the introduction of a similar program appeared imminent as a result of the then-concluding Federal-Provincial Social Security Review. The Review had agreed that exclusion of the working poor and inadequate work incentives were the central problems of the existing system. It had seemed that, as a result of the Review, an income support and supplement program would shortly be established to address these problems. Income support and supplementation is similar to a negative income tax, providing two levels of

<sup>1</sup> For a more comprehensive discussion of negative income tax programs, see *Issues and Alternatives 1976: Social Security* (OEC). Also see Department of National Health and Welfare, *Background Paper on Income Support and Supplementation* (1975), and Canadian Council on Social Development, *Income Supplements for the Working Poor* (1974).



minimum basic income and two reduction rates on earned income. One level, offering higher basic minimums and higher rates of reduction of benefits as income increased, would be aimed primarily at those who could not be expected to work full-time, such as the disabled. The second level would have lower basic minimums, but recipients would lose less in payments as income increased. This level would benefit mainly the working poor.

Under the assumption that this program would soon be implemented, the Council had in 1976 focused on the need for Ontario to integrate its residual programs. It now appears that the Social Security Review has not fulfilled these expectations. Despite a continuing consensus among all levels of government regarding the type of reform needed, as well as agreement by virtually all critics of the social security system, the problems surrounding federal-provincial jurisdiction and financing have apparently prevented further progress towards comprehensive reform of the income security system.

The need for reform has not lessened in the past few years. A significant minority of Canada's working population remains below acceptable standards of income. Existing income security programs continue to impede the efforts of recipients attempting to escape the welfare net. Moreover, growing public concern about the size of government adds a further reason for a critical examination of the effectiveness of existing programs. If it is possible to achieve reform of our income security system largely through redirection of current expenditures, then there is all the more reason in 1978 to renew initiatives towards this end.

The federal government has recently announced its intentions to revise its Family Allowance program. In the absence of comprehensive reform, these revisions are at least a modest step in the right direction. As of January 1979 the current universal Family Allowance, averaging \$25.68 per child per month, will be reduced to \$20.00. The savings will be used to finance a refundable tax credit of \$200 per year per child for all families up to \$18 000 taxable income. As income increases beyond \$18 000 the tax credit will be reduced by \$5 for every \$100 income. Thus a greater part of the expenditures will go to lower-income families. However, \$200 per child is only a very small contribution towards improving inadequate income, and without integration of other income security programs it cannot improve the incentive structure of the system. In addition, since reduction of the credit begins at the comparatively high income level of \$18 000, individuals with moderate income and no children will be subsidizing families with above-average income.

The Ontario Economic Council believes that the remaining universal Family Allowance should be terminated and the savings thereby realized used to finance a complete reform of the income security system.<sup>2</sup> Given the concurrent jurisdiction of two levels of government in income security, as well

2 Throughout the following discussion the Council has assumed that current levels of government expenditures cannot be increased. Thus all recommendations are based on reallocation of existing spending.



as the existence of numerous provincial programs, such reform would necessitate renewed federal-provincial co-operation in this regard. The Council recommends that the government of Ontario renew efforts to establish a dual federal-provincial income supplement or negative income tax program, with the understanding that federal financial participation would be limited to savings realized through termination of the Family Allowance.

Problems concerning financing and jurisdiction may be overcome by designing flexible instruments that allow the exercise of provincial options, while at the same time ensuring that the federal government does not lose control of its own spending powers. One possibility which might be considered is further federal-provincial discussion to agree upon general guidelines for an income supplement program. If a province agreed to implement such a program, federal financial participation would then be equal to the total amount of expenditures which would have been spent on Family Allowance and on existing cost-shared income security programs. The amount of provincial expenditures could be optional so long as the program remained within the general guidelines. Family Allowance payments to families within that province would then cease. If a province did not agree to implement a program within the guidelines, Family Allowance and other existing arrangements would remain. In this way existing expenditures could be used more effectively, without committing either level of government to expenditures over which it has no authority or lessening its role in income security programs.

Of course the Council recognizes that this is only one possible strategy and that it may prove more difficult when discussed in detail. The point remains, though, that there are many creative alternatives to be explored. Indeed, it is imperative at this time that any avenue which may lead to a more effective use of existing government expenditures should be aggressively pursued.

In the remainder of this section, provincial social security programs are critically reviewed. Although there are some reforms which Ontario could undertake on its own without additional spending, adequate work incentives and supplementation for the working poor remain beyond the powers of the province acting alone while attempting to constrain its spending. In the following pages the need for redirecting all of universal Family Allowances towards the poor will become more evident.

## **Programs and Issues**

Two alternative poverty lines and the benefit levels for three income security programs are presented in Table 1. Each of the poverty lines represents

TABLE 1: Poverty lines and benefit levels as of 1977 (\$)

Poverty lines		Income security program benefit levels			
Family Size	Statistics Canada	Social Planning Council of Metro Toronto	Old Age Security, Guaranteed Income Supplement, and	GAINS D (both adults disabled)	Family Benefits Allowance
			GAINS A		
1	4 446	5 110	3 729	3 240	2 472
2	6 443	6 716	7 458	6 480	4 380
3	8 221	8 648	—	7 152	5 196
4	9 778	9 875	—	7 680	5 892
5	10 930	11 795	—	8 208	6 588
6	11 999	12 995	—	8 736	7 284

Note: For derivation of poverty lines see *Issues and Alternatives: Social Security 1976* (OEC) appendix A. These have been updated by the consumer price index. Benefit levels for income security programs have been derived from Acts and Regulations.



an assessment of minimum income required to meet basic needs. Selection among poverty lines is essentially subjective, since the measurement of basic needs is largely subjective. It should also be noted that the poverty lines represent annual *income*, while a family's financial position will depend not only upon its income but also upon other factors such as its assets and its budgeting and buying skills. Thus any poverty line must be treated as at best an average: some families with income in excess of the poverty line will be poor, while others with less income may not be. The availability of alternative poverty lines, as well as consideration of factors other than income, implies that it is difficult to measure objectively the extent of poverty.

The Family Benefits Allowance is determined socially, through established democratic procedures, and it is therefore tempting to adopt the allowance levels as an operative 'poverty line' for purposes of measurement. Payments to the elderly under GAINS A and to the disabled under GAINS D (GAINS is the Guaranteed Annual Income System) are, however, also socially determined. As may be seen in Table 1, the benefits provided by all these programs are quite different, so that to treat one or the other as society's revealed choice of poverty line is necessarily arbitrary. Nevertheless, the series of alternative poverty lines and allowance payments in Table 1 may serve as a useful guide in the design of public policy if they are seen as a range of assessments of basic requirements, with Family Benefits representing an approximate minimum and the Social Planning Council's poverty line an approximate maximum.

With these guidelines it is possible to draw some conclusions about the extent of poverty among those groups known to be particularly at risk. They are the aged, the disabled, single non-working parents, and persons working full- or part-time but whose income remains inadequate. The extent to which existing income security programs address the problem of poverty and provide incentives for self-sufficiency in each of these groups is discussed briefly in the following pages, with attention focused on programs of the Ontario government.

## THE AGED

Income security programs designed for the aged have traditionally been more generous than those for any other group. In Ontario, an elderly couple with no outside income received \$7458 per year in combined Old Age Security, Guaranteed Income Supplement, and GAINS A benefits as of July 1978. This is more than the 'maximum' Social Planning Council poverty line for two persons in Table 1. Moreover, payments under these programs are not reduced to take account of assets which a family may have accumulated. Therefore, an elderly couple with substantial assets, particularly a home, will almost certainly be well above any poverty line.<sup>3</sup>

3 For detailed discussion of the effects of asset distribution upon the distribution of wealth see Charles Beach, *The Distribution of Income and Wealth in Ontario*, Ontario Economic Council (forthcoming).



A single pensioner in Ontario receives one-half of the amount paid to a couple. This is somewhat less than the Social Planning Council poverty line, though it is much higher than payments to a single person under Family Benefits. If we take account of implicit income from home ownership, those single pensioners who do not rent accommodation are very likely close to or above the Social Planning Council's poverty line. Thus income security programs for the elderly appear adequate even by the more generous estimates of minimum needs, except possibly for single pensioners who rent accommodations.

The explanation for the deficiency with regard to this group of elderly appears to lie mainly in the design of GAINS A. Poverty lines, as well as most income security programs, assume that costs per person when two live together are less than those of a single person. For example, under the Family Benefits program a two-person family receives 1.77 times the amount paid to a single person. The corresponding ratio in the Social Planning Council poverty lines is 1.31, and in combined federal Old Age Security (OAS) and Guaranteed Income Supplement (GIS) it is approximately 1.9. GAINS A adds a provincial benefit to the OAS and GIS to create a ratio of 2, since GAINS A guarantees a couple exactly twice as much as a single pensioner. Hence some elderly couples in Ontario may receive greater benefits than any of the poverty lines while single pensioners may not reach poverty lines. The existing expenditures under GAINS A might therefore deal more effectively with poverty by shifting to single persons some benefits paid to couples.

GAINS A might also be more efficiently targeted to the poor among the elderly if some form of asset test were applied. For example, if 1 per cent of the value of some assets were considered income for purposes of computing payments under GAINS A, pensioners who owned their own homes would be entitled to lower benefits than pensioners who rent accommodations. The maximum benefits payable under GAINS A could then be increased without changing the over-all level of expenditures, while more of the payments would at the same time flow to elderly people with greater needs.

Federal increases in OAS-GIS may provide one means of partially correcting the imbalance of payments between couples and singles, within current expenditure levels, without reducing benefits for any group of pensioners. The federal government has recently announced that basic GIS rates will be increased by \$20 as of January 1979. Rates for both single pensioners and couples will be increased by \$20. Ontario has generally 'passed through' federal increments in OAS-GIS by increasing GAINS A by the same amount as the federal increase. Ontario should consider increasing the GAINS A guarantee to couples by only a fraction of the \$20 increment and using the consequent savings to add a greater-than-\$20 increment to the guarantee for single pensioners.



## THE DISABLED

GAINS D is an Ontario program providing guaranteed incomes to persons who are blind or have long-term disability which severely limits normal living activity. The disability must be verified by a Medical Advisory Board. The GAINS D allowance for a single disabled person is \$3240; for a couple, both of whom are disabled, it is \$6480. As with GAINS A, a couple may therefore be close to most poverty lines, and a single disabled person is clearly below most poverty lines. However, the level of the allowance in GAINS D is much lower than that for GAINS A. Therefore, reallocating existing expenditures to improve the relative position of single disabled persons would imply inadequate support for couples. As with GAINS A, assets in the form of home ownership are not taken into account in establishing the amount of allowance payable, although there is a limit set on non-personal liquid assets. One method to direct more benefits under GAINS D to those most in need would thus be to apply an asset test that took account of implicit income from home ownership. Savings in over-all expenditures could then be used to increase allowances, in particular for single persons.

A special situation arises for a couple in which one spouse is disabled and the other is fully or partially dependent. In this case the annual allowance is \$5160. This is substantially less than the amount paid to a couple both of whom are disabled, although it is still much greater than Family Benefits for two adults. In fact, the increase in allowance allotted to the non-disabled spouse is approximately equal to the amount allowed for a second adult in Family Benefits. While this implies that inadequate income remains a substantial problem for couples only one of whom is disabled, a problem which is perhaps equally important is the disincentives for families attempting to improve their own income. For a family on GAINS D, 75 per cent of any income beyond \$100 a month is deducted from allowance payments. For single disabled persons or couples both of whom are disabled, the high rate of reduction of allowance will not likely be of much consequence, since earning capacity is in any event highly restricted. However, this may act as a substantial disincentive for couples one of whom is not disabled and who might otherwise attempt to improve family income through increased earnings. In the following discussion of single parents and the working poor this problem is more extensively addressed. Much of that discussion applies equally to families in which one spouse is severely disabled but the other spouse is not disabled at all.

Finally, it should be noted that GAINS D is available only to persons who are blind or whose handicap severely limits normal living activities. A disabled person who is able to carry out most day-to-day activities, but who is unable to work for medical reasons, is not eligible for GAINS D. These persons are entitled to Family Benefits Allowance if the disability is verified by



a Medical Advisory Board. As may be seen in Table 1, Family Benefits Allowances are significantly less than those under GAINS D. Therefore, persons who are permanently unemployed because of handicaps, but who are able to carry out normal activities, are very likely in poverty.

## SINGLE PARENTS

Family Benefits Allowance (FBA) is a provincial program providing assistance to certain categories of persons in need. Approximately 50 per cent of Family Benefits Allowance recipients are single mothers raising dependent children. A single father raising children is entitled to Family Benefits only if he is permanently unemployable, as verified by a Medical Advisory Board. General Welfare Assistance (GWA) is available where immediate or only short-term assistance is required. As well, single fathers who are employable and families wherein the father is employable are eligible for General Welfare Assistance if they are actively seeking employment. As may be seen in Table 1, Family Benefits Allowances are much lower than either set of poverty lines. Family Benefits are on average somewhat more generous than General Welfare Assistance. Unlike GAINS A, both Family Benefits and General Welfare Assistance incorporate an assets requirement. This imposes an upper limit on the amount of liquid assets a family may hold in order to receive benefits. Although home ownership and other personal assets are exempted from the limit, the amount of allowance paid is reduced to take account of lower shelter costs. Thus, due to the treatment of assets as well as the lesser amounts of allowance, persons on Family Benefits or General Welfare Assistance are much more likely to be in poverty than persons on other provincial programs.

As mentioned above, Family Benefits is a categorical program allowing eligibility to certain applicants but disallowing others, regardless of financial need. The existing structure apparently reflects a social judgment that males who are employable must work, regardless of their family circumstances, while females with dependent children should be allowed to choose whether to work or to receive Family Benefits. There are at least two concerns which must be raised regarding this structure. First, the inherent discrimination on the basis of sex is inconsistent with Ontario government efforts in other areas to remove bias on the basis of sex. Second, if society believes that women (or men) should have the choice of remaining at home to raise children, then it appears incumbent upon society to ensure that the allowance provided is sufficient to allow them to undertake this responsibility.

Unfortunately, reducing the categorical restrictions on eligibility and increasing allowances requires additional expenditures. While there are no apparent means through which Ontario could shift priorities among its current income security programs to provide additional funds for this purpose, provincial expenditures are only a small portion of total income security spending in the province. In the 1976-7 fiscal year, total Family Benefits and



General Welfare Assistance Allowances were \$506 million. In the same year total federal Family Allowance costs in Ontario alone were approximately \$694 million. A 20 per cent increase in Family Benefits and General Welfare Assistance could therefore be funded by a 15 per cent decrease in Family Allowance.

Inadequacy of benefits, however, is not the only substantial criticism of Family Benefits and General Welfare Assistance. As with GAINS D, each dollar of earned income beyond the first \$100 results in a 75¢ decrease in benefits paid. Moreover, if a woman raising children works more than 120 hours a month, averaged over four months, she loses eligibility completely. The program thus discourages a woman from accepting full-time employment, since she will be much better off remaining on Family Benefits. Because she will experience very little reward, she is also discouraged from seeking part-time work, even if it remains within the 120-hour limit. She is faced with higher marginal tax rates than those in the top income bracket.

The disincentives appear still more significant if we review the results of simultaneous enrolment in a number of programs. Table 2 provides a summary of several common programs as they might affect a mother with two children, given variations in hours of work and wage rates. As may be seen in column O, if she works part time throughout the year and increases her number of hours worked at minimum wage from 27.5 to 30 hours per week, the result is a *loss* of almost \$2000 in after-tax income and benefits. In fact, she must earn well over \$12 000 a year before she will be better off than if she had worked 27.5 hours a week at the minimum wage. Of course, this is a special situation since not all persons receiving Family Benefits are also utilizing day care and receiving subsidized housing. But even if we disregard these two programs and consider only those which are presumably used by all recipients, the effect is much the same. Columns J and K present the effects on total income and implicit marginal tax rates in the absence of subsidized day care and housing. In this case the mother must work full time at more than \$4.40 an hour before she is better off than working part time at the minimum wage. In fact, the main difference when the benefits of day care and subsidized housing are not considered is that there is much less reward for part-time earnings at the minimum wage.

Table 2 makes it clear that marginal tax rates are often very high, and occasionally greater than 100 per cent. This is particularly striking when geared-to-income subsidies are also taken into account. Even if a recipient has only cash benefits, she must be able to move immediately to a well-paying job in order to experience any economic benefit from working. Moving from part time to full time at the minimum wage will most likely lead to a loss of income. Recipients may therefore feel justly frustrated by a system which denies them the opportunity to improve their financial position through their own efforts. Marginal tax rates of 100 per cent and higher are the economic foundation of what has become known as the 'welfare trap.'

TABLE 2: Family Benefits Allowance and other benefits: the case of a mother with two children aged 0-9 and 10-15, Ontario 1978

Weeks of work	Weekly hours of work <sup>a</sup>	Hourly wage rate	Income from employ- ment	Family Benefit Allow.	Subsidized OHIP premium	Family Allow. (1978)	Provincial tax credits	Income taxes	Total income	Implicit marginal tax rate on earnings (%)	Imputed day care subsidy	Imputed rent geared to income subsidy	Total disposable income and imputed benefits	Implicit marginal tax rate (%) <sup>b</sup>
A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
0	0	0	0	4 764	456	616	235	0	6 071	—	0	1 548	7 619	—
10	27.5	2.85	815	4 422	456	616	235	0	6 544	42	480	1 548	8 572	(17)
20	27.5	2.85	1 631	4 081	456	616	235	0	7 019	42	960	1 548	9 527	(17)
30	27.5	2.85	2 445	3 740	456	616	235	0	7 492	42	1 440	1 548	10 480	(17)
40	27.5	2.85	3 260	3 282	456	616	235	0	7 849	56	1 920	1 548	11 317	( 3)
52	27.5	2.85	4 076	2 787	456	616	235	0	8 170	61	2 400	1 548	12 118	2
52	30	2.85	4 446	0	456	616	162	0	5 680	773	2 400	2 424	10 504	536
52	33	2.85	4 891	0	456	616	185	98	6 050	17	2 400	2 280	10 730	49
52	37.5	2.85	5 558	0	456	616	179	259	6 550	25	2 287	2 064	10 901	74
52	37.5	3.20	6 240	0	342	616	169	426	6 941	43	2 092	1 872	10 905	99
52	37.5	3.60	7 020	0	228	616	157	636	7 385	43	1 857	1 680	10 922	98
52	37.5	4.00	7 800	0	114	616	147	831	7 846	41	1 610	1 488	10 944	97
52	37.5	4.40	8 580	0	0	616	135	1 042	8 289	43	1 375	1 296	10 960	98
52	37.5	4.80	9 360	0	0	616	124	1 255	8 845	29	1 142	1 104	11 091	83
52	37.5	5.20	10 140	0	0	616	114	1 471	9 399	29	923	900	11 222	83
52	37.5	5.60	10 920	0	0	616	100	1 707	9 929	32	707	708	11 344	84
52	37.5	6.00	11 700	0	0	616	88	1 942	10 462	32	490	516	11 468	84

<sup>a</sup> The Family Benefits Act does not allow a single mother to work more than 120 hours per month (27.5 hours per week) for any continuous four month period. This example assumes that the number of hours worked in each week is approximately the same.

<sup>b</sup> Brackets indicate a negative implicit marginal tax rate. This means that, in these cases, an increase in earned income will lead to an even greater increase in benefits —mainly due to the use of day care.



On the face of it, this problem appears easy enough to resolve: simply remove the limitations on the numbers of hours worked, decrease the rate by which benefits are reduced as income increases, and integrate the marginal tax effects of subsidized benefits. With existing caseloads such a solution might imply some additional costs, since some women would continue to receive benefits, whereas previously all benefits would have been withdrawn, but presumably these costs would be small and partly counterbalanced by reduced benefits resulting from increased earnings. However, if the current restrictions on hours were removed and the rate of reduction of benefits reduced to 50 per cent of earnings beyond the \$100 exemption, then families such as the one portrayed in Table 2 would be subsidized at incomes of up to \$10 728. Integrating subsidized services while attempting to restrain the reduction rate leads to the subsidization of still higher incomes. Nor can such a program, without substantial injustice, be restricted to persons who have at some point received full Family Benefits. If two women with families of the same size are both working and earning the same amount, it is surely unfair for one woman to receive government benefits, because she had at one time in the past been enrolled on Family Benefits, while the other woman is ineligible. Nor would it be equitable to exclude a male family head if his income were the same or lower than the recipient of Family Benefits work incentive. Nor, finally, are the current restrictions on allowable liquid assets appropriate for a worker in the lower-middle income ranges.

In short, equity demands that if adequate work incentives are provided in Family Benefits Allowance and General Welfare Assistance these subsidies must be available to all families in similar situations. The categorical and assets limitations of Family Benefits Allowance must be removed, perhaps to be replaced by an assets test. The Family Benefits Allowance then becomes an income supplement program, and in consequence provincial costs rise significantly. If such a program is to be implemented within current government expenditures on income security, funds for current federal universal programs must be utilized, as suggested previously.

## THE WORKING POOR

The 'working poor' are families in poverty whose major source of income is earnings and in which at least one adult is regularly employed full time. In Ontario between 5 and 10 per cent of all family units, other than families in which the head is 65 or over, may be described as working poor.<sup>4</sup> In about half of these families the primary earner worked full time with no period of unemployment. Other than universal Family Allowances and Unemployment Insurance, the working poor have little or no access to income security

<sup>4</sup> The exact numbers will depend upon choice of poverty lines. For further statistics concerning the working poor see Canada Department of Health and Welfare (1976) *Characteristics of the Working Poor in Canada* (Ottawa) and National Council of Welfare (1977) *The Working Poor* (Ottawa). All statistics in the following discussion are drawn from these publications.



programs. In fact, the income security system other than Family Allowances entirely excludes families in which the primary earner is steadily employed, although it is clear that there are a substantial number of such families in poverty. The economic position of many of these families would improve if the father were to desert and the mother and children were enrolled on social assistance, or, in the case of single-parent families, if the primary earner quit work and enrolled on social assistance. Many of the working poor have less income than similar families who are not working.

Our income security system thus encourages family instability and penalizes self-effort. This applies not only to the working poor but, as discussed above, also to those currently in receipt of social assistance. Equally important, the treatment of the working poor as compared with that of those on social assistance is clearly inequitable. One way partially to resolve this situation would be to reduce social assistance rates. This, however, would do nothing to solve the problem of poverty among working families, and it would further impoverish families receiving social assistance. The only other alternative is to make some form of income assistance available to persons who are steadily employed, that is, a negative income tax or income supplement program. If fully integrated with existing provincial programs, this would also provide a continuous system of work incentives. The Ontario Economic Council views the introduction of a negative income tax or income supplement program as the only effective and equitable method of reforming the income security system. As noted earlier, it will require additional funds. However, the Council believes that such funds can be found through reallocating existing income security expenditures, in particular the universal Family Allowance.

One other important aspect of the social security system in relation to the working poor is the provision of social services. As with income security programs, the working poor have been almost entirely denied access to social services. This has in large part reflected the cost-sharing arrangements for social services under the Canada Assistance Plan (CAP). The CAP provides cost-sharing primarily for provincial social service expenditures for persons in financial need, according to the Family Benefits definition. But, as we have seen, this excludes all families whose primary earner works full time. New funding arrangements for social services were recently under consideration by Parliament. These would have provided block-grant funds without restrictions on their use by the province. With such new arrangements Ontario could have extended some social services to the working poor without loss of federal cost-sharing. Unfortunately, the block funding proposal has now been withdrawn by the federal government. In its absence, amendments to the CAP should be considered to allow improved social services for persons working full time.

One type of service for the working poor which might be particularly useful is improved vocational training opportunities. Most of the working



poor have developed excellent work habits and suffer from no social or physical disabilities. Although training for the disadvantaged has often been less than entirely successful, there is reason to expect better results from programs aimed at the working poor. This should also have important benefits for the community as a whole, since an increase in the skills of the labour force permits the economy to produce more.













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